Austria Sch22	Indonesia Rp3100	Portugal Esc100
Bahrain Din0.650	Israel NS3.50	S.Arabia Rls6.00
Belgium BFr48	Italy L1600	Singapore ...... S$4.10
Canada ...... C$1.00	Japan Y600	Spain Pta125
Cyprus ...... C£0 75	Jordan Fils500	Sri Lanka Rup30
Denmark DKr9.00	Kuwait Fils500	Sweden SKr8.00
Egypt ...... E£2.25	Lebanon SL125.00	Switzerland. SFr2.20
Finland Fmk7.00	Luxembourg LFr48	Taiwan ...... NT$65
France FFr6 50	Malaysia Rin4.25	Thailand Bht50
Germany DM2.20	Mexico Pes300	Tunisia Din0.800
Greece Dr100	Morocco Dh6.00	Turkey L500
Hong Kong ...... HK$12	Netherlands Fl3.00	UAE Dh6.50
India Rup15	Norway Nkr8.00	USA $1.00

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 30,380 Wednesday November 4 1987 D 8523 A

West Germany: How Wunder turned to whimper, Page 26

World News

W. German police mourn their colleagues

Tens of thousands of West German police, many wearing black armbands, staged protest rallies after demonstrators shot dead two policemen and wounded nine others during a protest against the construction of a new runway at Frankfurt airport.

It was the first time that members of the police force had been killed at a political demonstration in West Germany since the Second World War. Page 28

Iranian missile deal

Tehran signed a $400m contract early last year for Silkworm missiles from China, Iran's main opposition group, the Baghdad-based Mujahedeen Khalq, reported. Chinese pledge on arms sales, Page 28

Swiss secrecy lifted

Switzerland lifted its bank secrecy laws and gave a US special prosecutor thousands of bank records tracing the money and activities of key figures in the Irangate scandal.

Gulf war talks

Iran and Iraq agreed to send representatives for a fresh round of talks with UN Secretary-General Javier Perez de Cuellar on ending their seven-year war.

Nato discusses treaty

Nato defence ministers met in California to review ways of reshaping Western Europe's nuclear defences after the departure of US medium-range missiles under the impending INF treaty.

Danes accuse Moscow

Danish Foreign Minister Uffe Ellemann-Jensen accused the Soviet Union of creating tension in the Nordic region by building up military forces in the Kola peninsula.

Manila safety pledge

The Philippines assured South-East Asian leaders of their safety at a summit next month and said suspects had been detained in connection with a huge time-bomb discovered in the Manila building where the talks were due to be held.

Sri Lanka death threats

More than 100 government MPs in Sri Lanka received "final warning" letters written in blood saying they would be killed if they voted for bills to implement the India-Sri Lanka peace accord. Page 3

Fijian Indians' exodus

Fiji's Indians, caught in a rising tide of indigenous nationalism following two military coups, were leaving the country in growing numbers, Indian community leaders in Suva said. Page 3

Zulu leader's plea

Chief Mangosuthu Buthelezi, leader of South Africa's 6m Zulus, urged President P.W. Botha to take bolder initiatives to reform apartheid. Natal joint executive, Page 3

Ethiopian food crisis

Food supplies in parts of drought-stricken northern Ethiopia were beginning to run short because of a rebel attack on a food convoy on October 23, the World Food Programme said.

Police pay protest

Dutch police intended to drop 50,000 leaflets from an aircraft on Amsterdam's Olympic stadium as part of a pay protest - then delay a soccer match by slowly picking up the leaflets with litter spikes, Dutch radio reported.

Unesco cuts cake

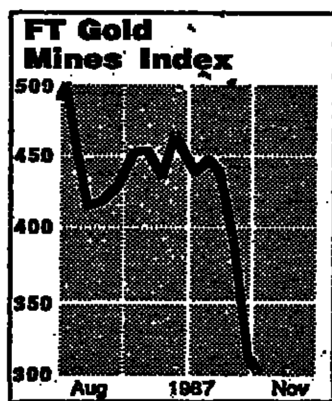
Unesco administrators decided to cut coffee and cake breaks, reduce executives' privileges and hold shorter conferences and board meetings in an effort to reduce costs.

Business Summary

British broker hit by more resignations

WILLIS FABER, second biggest British-based insurance broking group, has suffered a fresh wave of staff resignations in the wake of its merger this summer with Stewart Wrightson, a fellow broker. Page 28

GOLD: Short covering on expectations of a lower dollar left the December gold contract $1.30 an ounce higher in New York last night. A possible increase in Opec output quota tended to keep the metal in a narrow range in Far East trading but there was sufficient interest to encourage the opening price in London to $470¼ from $470 last night. Page 38



WALL STREET: The Dow Jones industrial average closed down 50.56 at 1,963.53. Page 50

LONDON: The cautious recovery of confidence was abruptly jolted by the sliding dollar. Share prices dropped and the FT-SE 100 index lost 69.8 to 1,653.9. Page 46

TOKYO was closed for a national holiday.

ITALY: Hopes of salvaging the proposed telecommunications equipment merger between state group IRI-Stet's Italtel subsidiary and Fiat's Telettra are fading. Page 2

WEST GERMAN industrial output fell 3.5 per cent from August to September, following a 5 per cent rise in August. Page 2

POLAND will be looking to the West for more loans next year. Page 2

MATSUSHITA, the Japanese electronics group, is considering building several factories in the UK and on the Continent of Europe. Page 7

TEXAS AIR, heavily indebted holding company which owns the biggest US airline system, lost $72.8m or $1.97 a share after tax in the third-quarter, increasing to $200.5m or $5.75 a share the company's total losses for the first nine months of this year. Page 29

CIGNA, large Philadelphia-based insurance group, lifted third-quarter operating net income by 23 per cent to $163.3m, or $1.94 per share, from $132.3m, or $1.52 a year earlier. Page 30

CANNON GROUP, financially troubled film production and distribution company with operations in the US and UK, has missed a $2.56m interest payment on an issue of subordinated notes. Page 29

DEAN WITTER, Wall Street firm owned by Sears, Roebuck, largest US retailer, has fired almost half its municipal bond underwriting staff so that it can hire the nucleus of the Salomon Brothers' team axed last month. Page 32

CAISSE de Dépôt, Quebec Pension Plan investment manager with C$30bn (US$22.9bn) in assets, is expanding its property portfolio outside Quebec by investing in Cadillac Fairview, big Canadian property developer.

MOLSON Companies, Canada's second largest brewer with interests in special chemicals and building materials, posted a sharp gain in earnings in the first-half ended September 30, with net profits at C$56.1m (US$42.8m), or C$1.71 a share fully diluted, up from C$37.5m or C$1.19 a year earlier.

Weinberger ready to quit as US Defence Secretary

BY STEWART FLEMING, US EDITOR, IN WASHINGTON

MR CASPAR Weinberger, one of President Ronald Reagan's closest advisers since he took office in 1981, is expected to announce his resignation as US Defence Secretary later this week.

Although Administration officials are refusing to comment on widespread published reports of his imminent resignation, indirect confirmation came yesterday from Mr Robert Dole, Senate Minority leader and Republican presidential candidate. He understood that Mr Weinberger, 70, was leaving for personal reasons. Mr Weinberger's wife is seriously ill.

He is expected to be replaced by Mr Frank Carlucci, the National Security Adviser, who has worked as Mr Weinberger's deputy at the Pentagon in the Reagan Administration in 1981 and 1982, and at the Office of Management and Budget in the Nixon Administration.

Reports of Mr Weinberger's imminent departure triggered speculation in Washington yesterday about the implications of his decision.

Coming after the resignation of Mr Bill Brock, the Labour Secretary, and Mrs Elizabeth Dole, the Transport Secretary, as well as other numerous resignations of political appointees below Cabinet level, it tends to add to the impression that the Reagan Administration is disintegrating.

Assuming Mr Frank Carlucci takes over as Defence Secretary and is replaced by his deputy, Lt General Colin Powell, Mr Weinberger's departure will be seen to be a weakening of the Administration, particularly in the eyes of its conservative supporters.

Mr Weinberger, one of the group of Californians who came to Washington with Mr Reagan, has been one of the most influential Cabinet officers during the Reagan presidency. This is partly a result of a working relationship which goes back 20 years to Mr Reagan's days as Governor of California. But, as Defence Secretary, Mr Weinberger has been responsible for implementing the build-up in US defence spending, which has been one Mr Reagan's top priorities.

Mr Weinberger also shares the President's distrust of the Soviet Union, together with Mr Richard Perle, who resigned as Assistant Secretary of Defence earlier this year.

Mr Weinberger has been a vigorous opponent of arms control and an advocate of the Star Wars Strategic Defence Initiative.

As Mr Reagan has embraced the view that Washington can and should seek verifiable arms control accords with Moscow to reduce nuclear weapons, and with Mr Perle's departure, Mr Weinberger's influence has begun to wain. Meanwhile, the State Department, traditionally more flexible on arms control issues, and Mr George Shultz, Secretary of State, have grown in strength.

Mr Weinberger's political strength has also been eroded by increasing public scepticism about the need for a continuation in the rapid expansion of the defence budget, scepticism which has already been translated into nominal cuts in defence authorisations.

On the wider implications for US-Soviet relations of Mr Weinberger's departure, some in Washington maintained that Moscow will be pleased. It may also improve the atmosphere surrounding the forthcoming summit meeting between Mr Reagan and Mr Mikhail Gorbachev, the Soviet leader.

Whether it will significantly change the way US Soviet relations evolve in what is left of Mr Reagan's term is much more difficult to judge.

To the extent that lack of flexibility in Washington on SDI is an obstacle to such an accord this would appear to be the case, for Mr Weinberger is now not only a staunch advocate of the space defence programme but also has been pressing for its early deployment.

Frank Carlucci: tipped as Defence Secretary

Senior Soviet official discounts seriousness of rift in leadership

BY PATRICK COCKBURN IN MOSCOW

MR ALEXANDER Yakovlev, a senior member of the Soviet Politburo, yesterday denied reports that the threatened resignation of Mr Boris Yeltsin, a prominent radical Communist Party leader and supporter of the reforms now under way, had created a political crisis in the Kremlin.

However, Mr Yakovlev confirmed that many members at the party's central committee meeting on October 21 had disputed Mr Yeltsin's criticism of the progress of reform in the Soviet Union.

Mr Yeltsin is leader of the Moscow city party. His offer to resign would be considered by leaders of the Moscow party, said Mr Yakovlev.

Mr Yakovlev, as the Soviet Communist Party's Secretary for Propaganda and Culture, is the main architect of the policy towards increasing freedom of expression accompanying the economic reforms being pushed through by Mr Mikhail Gorbachev, the Soviet leader.

Although Mr Yakovlev said there were often arguments within the central committee, the Soviet leadership is clearly keen to demonstrate at home and abroad that it is united in support of radical political and economic reform advocated by Mr Gorbachev.

Mr Yeltsin's resignation - he is the most eloquent if not necessarily the most effective of radicals among the leaders - would almost certainly be seen as a setback Mr Gorbachev's reform plans.

Although downplaying the significance of the incident, Mr Yakovlev appeared surprised that Tass, the Soviet news agency, had not reported Mr Yeltsin's threatened resignation.

He was evidently unaware that it had done so, but with a recommendation to Soviet editors not to publish.

Turning to Mr Gorbachev's speech on Monday celebrating the 70th anniversary of the the 1917 Bolshevik revolution, Mr Yakovlev stressed the diversity of attitudes, largely depending on generations, towards Stalin.

During the Second World War, in which he lost a leg, Mr Yakovlev said he was "not ashamed to admit that I had faith that Stalin's leadership was correct".

Soviet intelligentsia, for whom the Government's condemnation of Stalin is a vital touchstone for the credibility of its commitment to reform, was disappointed by the way in which Mr Gorbachev denounced Stalin's purges in the 1930s, but praised his war leadership.

It is doubtful, however, that Mr Gorbachev could have gone further in condemning Stalin, even if he had wanted to, without alienating significant sections of party and public opinion.

Mr Yakovlev said the question of Stalin was not a simple one. "What I want to say is that the search for a single answer is hopeless and irresponsible."

He said a commission would have to examine documents on the people purged - presumably a reference to confessions frequently extorted by torture.

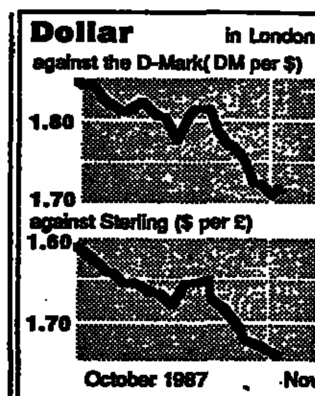
Referring to Mr Gorbachev's summit meeting with US President Ronald Reagan, Mr Yakovlev said that the Soviet leader's initial surprise decision not to go to Washington was because he wanted an agreed agenda from which results could be expected.

● The US yesterday welcomed Mr Gorbachev's declaration on Monday that he was committed to better superpower relations, Reuter reports from Washington.

However, State Department spokesman Charles Redman limited his commentary on Monday's speech by the Soviet leader to two elements which he said Washington saw as encouraging. In addition to the commitment to better relations with Washington, Mr Redman also welcomed Mr Gorbachev's declaration that he wanted next month's summit with President Reagan to achieve concrete results.

"We are pleased to note the General Secretary's stated commitment to achieving what he called tangible progress in US-Soviet relations at the upcoming summit," he said. "We also welcome Mr Gorbachev's stated commitment to achieving deep reductions in strategic offensive forces. We hope this indicates Soviet willingness to work intensively on a treaty on 50 per cent START reductions," he added.

START refers to negotiations to halve superpower arsenals of strategic nuclear missiles. Both sides have said they want to sign a treaty doing that



Dollar falls again amid doubts over US budget

By Simon Holberton in London and Roderick Oram in New York

THE DOLLAR continued to slide on foreign exchanges yesterday, hitting all-time lows against the yen and D-Mark in European trading, amid scepticism over the prospects for a decision on cutting US deficit by the end of this week. Equity markets in London and New York also came under heavy selling pressure with key market indices posting their biggest falls in recent days.

US investors took out their frustration and nervousness about Washington's lack of progress towards cutting the federal budget deficit by resuming their heavy selling of equities. Wall Street share prices fell from the opening, pushing down the Dow Jones Industrial Average by more than 110 points before it staged a partial recovery to close down 50.56 at 1,963.53.

In London, the FT-SE 100 in-

Continued on Page 28

Dutch interest rates cut, Page 2

Lawson predicts steady growth in UK economy

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT, IN LONDON

Mr NIGEL Lawson, the British Chancellor, yesterday forecast a further year of steady UK economic growth in 1988 in his Autumn economic statement.

But he acknowledged that the collapse on world stock markets had created uncertainties.

Growth would be slower than in 1987, while the deficit current account of the balance of payments was likely to widen.

He gave an upbeat assessment of the outlook for Britain's economic outlook despite sharp falls in world equity prices.

"The strength of the British economy, and of our public finances, puts us in the best possible position to weather any storm," he told the House of Commons.

Substantial increases in Government cash targets for public spending were unveiled, but it sought to underline the strength of its finances by predicting that public borrowing would fall to its lowest level for 17 years.

The statement, which followed intense bargaining between the Treasury and spending departments, provides for a £2.6bn ($4.47bn) increase to £156.8bn in the cash target for departmental spending in the financial year beginning next April.

For the following 1989-90 year the target has been raised by £5.6bn to £167.1bn.

Mr Lawson said, however, that overall spending would continue to fall as a proportion of national income, to give the longest sustained reduction since the early 1950s.

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- Public spending target, Page 12
- Ready reckoner, Page 13
- Paternalism in reverse, Page 14
- Editorial comment, Page 26
- Lex, Page 28

Excluding privatisation proceeds, spending is expected to account for 41¼ per cent of GDP by 1990/91, against 42½ per cent this year.

The Chancellor fuelled speculation about the scope for sizeable tax cuts in next year's budget by saying that the Government's revenues in the current financial year were running £2¾bn above its previous forecast. City of London economists believe Mr Lawson could cut income taxes by £2bn to £3bn in March.

Buoyant revenues and a small undershoot in spending this year mean that the public sector borrowing requirement is now projected at only £1bn in 1987-88 against £4bn.

Yesterday's projections assume that the borrowing requirement will be set at this new lower level next year.

Mr Lawson suggested, however, that if the economy slowed by more than he expected because of the turmoil on world financial markets, he might not seek to fully offset the impact of that weakening on borrowing.

Continued on Page 28

Plessey expands in US with $80m takeover of Sippican

BY TERRY DODSWORTH AND DAVID THOMAS IN LONDON

PLESSEY, the UK electronics group, yesterday launched its expected expansion programme in the US with a $80m agreed takeover of Sippican, a Massachusetts-based defence company specialising in naval warfare.

The deal follows Plessey's abortive attempt to acquire Harris, a much larger US defence contractor, earlier this year. It will give the UK group a larger foothold in the US market, where its sales at present amount to about $35m a year against Sippican's $50m.

Plessey abandoned its plans to make an approach to Harris after it became clear that the US Defence Department was opposed to a takeover or merger because of the American group's involvement in top secret work.

There have been indications over the last year or so that the US authorities are becoming increasingly concerned about foreign involvement in the defence sector, where UK companies have made a number of takeovers over the last few months. But Mr Alan Jones, who heads Plessey's defence activities, said yesterday that he was confident there would be no opposition to the Sippican deal.

ACQUISITIONS OF US DEFENCE COMPANIES

Purchaser	Target	Date	Price
Plessey	Harris	spring	*
Smiths Industries	Lear Siegler's avionics (part)	July	$350m
GEC	Lear Siegler's avionics (part)	July	$205m
Ferranti (merger)	International Signal and Control	September	$1.6bn+
Plessey	Sippican	November	$80m

*dropped after Pentagon opposition. + combined sales

Sippican, which is being acquired for cash out of Plessey's current liquid balances of about £270m ($464m), made pretax profits last year of $6.4m from sales of a range of sonor and communications products. While this equipment has less technology content than Harris's, Plessey said yesterday that it was relatively immune to the cuts in US defence spending because much of it is expendable and has to be renewed.

Plessey's announcement comes after a period of hectic activity in the company. In the last few weeks it has agreed to merge its telecommunications activities with the General Electric Company, and has lost its managing director, Sir James Blyth, who left abruptly after an apparent failure to see eye to eye with Sir John Clark, the group's chairman.

At the same time the company's shares have been buffeted in the general slump on the Stock Exchange, where it has been the target of persistent speculation that it might be a potential takeover victim itself. Yesterday the shares fell another 6p to 142p.

The Sippican agreement is widely seen part of a new expansionist strategy by the company as it tries to develop its overseas activities and ward off potential acquisition threats. It is expected that the company will pursue other overseas takeover opportunities.

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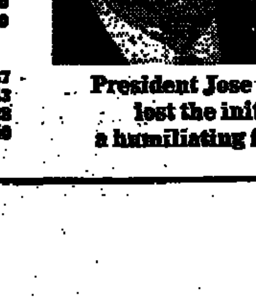

MOMENT OF TRUTH FOR THE PRESIDENCY IN BRAZIL

President Jose Sarney, who has lost the initiative after a humiliating failure, Page 28

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EUROPEAN NEWS

Big fall in Sweden's growth forecast

By Sara Webb in Stockholm

SWEDEN CAN expect much lower economic growth next year as a result of the recent stock market crash, according to a report released yesterday by Svenska Handelsbanken, the country's third largest commercial bank.

GNP growth in 1988 is expected to be only 0.8 per cent, in contrast with Svenska Handelsbanken's earlier forecast of 1.5 per cent and the Government's more optimistic figures of 2-2.3 per cent presented two weeks ago.

The bank's report warned of lower export market growth of about 1-1.5 per cent instead of the 3.5 per cent growth forecast previously.

The lower dollar is expected to mean reduced demand from the US market, which would take its toll on Sweden's car and forestry product exports. In addition, lower domestic demand in Denmark and Norway, two important markets for Swedish exports, will also serve to restrict export growth.

The stock market crash means that it will be more difficult for Swedish companies to raise new capital on the market, leading to lower investment in plant and machinery next year, the bank says.

However, on a more optimistic note, Handelsbanken adds that the stock market crash should have a "useful effect" on the Swedish economy by helping to dampen inflation.

Only a month ago, the bank had warned that the Swedish economy was in danger of overheating, but yesterday it withdrew its warning, saying that the stock market crash would help to push up household saving and lower domestic demand for goods.

Given the gloomier economic outlook, the bank believes that the unions will have to take a more realistic approach in the forthcoming wage negotiations and settle for lower wage increases for 1988.

Poland looks West for more credit

By Christopher Bobinski in Warsaw

POLAND will be looking to Western governments to provide new loans next year following the initialling in Paris last week of an agreement rescheduling more than $8bn worth of capital and interest payments falling due between 1986 and 1988.

The agreement, which is to be signed next month, reschedules the payments over 10 years, although Poland had asked for a longer period, Mr Jerzy Urban, the government spokesman, said.

Interest rates on the rescheduled amounts are to be fixed in bilateral negotiations after the signing with each of the 17 countries involved in the Paris Club agreement. Poland's total debt now stands at $36bn.

This accord opens the way to formal talks with the International Monetary Fund and the World Bank on standby credits and investment loans to Poland. The agreement, Mr Urban said, entails an increase in hard currency outflows this year and next in the period covered by the start of the 36-month official reform programme.

Bundesbank puts off 'repo' deals

BY ANDREW FISHER IN FRANKFURT

THE West German Bundesbank said yesterday that it was conducting no securities repurchase deals to add to money market liquidity this week, because last week's currency intervention had led to inflows of more than DM8bn($4.7bn).

The central bank said that the funds flowed into West Germany as a result of its intervention to support the dollar and currencies in the European Monetary System against the rising D-Mark.

However, despite further intervention yesterday, the dollar fell to its lowest level in West Germany since the Second World War. It was fixed in Frankfurt at DM1.7050 compared with DM1.7204 on Monday. The previous low in the history of the Federal Republic was DM1.7062 in January, 1980.

The Bundesbank's decision not to offer any securities repurchase agreements this week follows its moves to increase liquidity last week as commercial banks' funding needs increased at the end of the month. That action brought down call money rates - yesterday, they rose again - and led to speculation that this week's repurchase offering, a means of commercial bank refinancing, would be at a lower rate than the previous level of 3.80 per cent.

When the so-called "repo" rate went up to 3.85 per cent in mid-October, Mr James Baker, the US Treasury Secretary, rounded angrily on West Germany. However, Mr Karl Otto Poehl, the Bundesbank president, said in New York on Monday that West Germany did not want higher interest rates and that the latest upward trend had begun in the US.

Mr Poehl also said the Bundesbank would stick by its monetary policy, denying that it was too restrictive. He reaffirmed West German support for February's Louvre accord on currency stability, but added: "In the end, stable exchange rates are not a goal in themselves. What we are really aiming for is a co-ordinated process of non-inflationary growth."

Some foreign exchange dealers said this statement contributed to the further fall in the US currency. If the dollar does not recover by December 31, Bundesbank profits will suffer through write-downs in the value of its $45bn of dollar reserves, now in its books at the end-1979 level of DM 1.7275.

Thus, the Bonn Government, which has budgeted for a Bundesbank payment of some DM6bn next year, could find itself having to accept a much smaller sum. This year, the central bank's payment to the Government dropped to DM7.3bn from DM12.6bn.

West German industrial output falls 3.5%

BY OUR BONN STAFF

WEST GERMAN industrial production fell by 3.5 per cent from August to September, the Government reported yesterday, following a 5 per cent rise in August.

Yesterday's cheerless production statistics coincided with only the slightest of falls - one point - in unemployment in October, leaving 2.09m West Germans, or 8.3 per cent of the workforce, jobless.

The production and jobs figures will probably add further force to calls from abroad on West Germany to expand its domestic economy. There is little chance that the Government will take much notice of this pressure, however.

The Economics Ministry said the September production figures would probably be corrected upwards later as was often the case with statistics for that month. For the moment, however, it appears that mining output fell 8 per cent, with electricity and gas supply and the production of finished goods down 3.5 per cent. Activity in the construction sector fell 2.5 per cent from August.

Despite the small fall in unemployment, the total still shows an increase of 66,000 people on a year ago when the jobless rate stood at 8.1 per cent. The Federal Labour Bureau was able, however, to conjure up something positive yesterday when it claimed that the jobs market in October had behaved well in the face of international stock market turbulence.

Time running out for Italian telecommunications merger

BY ALAN FRIEDMAN IN MILAN

HOPES OF salvaging the proposed merger of Italy's state and private telecommunications equipment makers are fading fast among politicians in Rome.

The principal stumbling block appears to lie in continuing differences between the Fiat group and the Iri-Stet state holding concern over the executive management of Telit, the umbrella company which is supposed to bring together Fiat's Telettra and Iri-Stet's Italtel subsidiaries in one telecommunications venture.

The shareholding structure of Telit is supposed to be 48 per cent Fiat-owned, 48 per cent controlled by Iri-Stet and 4 per cent owned by Mediobanca, the Milan merchant bank. But a war of words erupted in September between Fiat and state industry officials when the Turin private group objected to the appointment of Mrs Marisa Bellisario, Italtel managing director, to the same position at Telit.

Mr Antonio Maccanico, the Mediobanca chairman, who has been mediating between Rome and Turin, said in a magazine interview this week that "given the present state of affairs I am pessimistic." Trade union leaders, meanwhile, are to meet the Minister for State Industry in Rome this morning to discuss the Telit affair. They want to stress in particular that when Mediobanca is privatised, its 4 per cent Telit stake must be transferred to a state institution.

Several leading politicians and bankers have said recently in private that they fear the Telit deal will be "stillborn." If this is the case, Italy's telecommunications strategy will be set back by two years, which is the length of time the merger has been under discussion.

The pessimism in Rome can be gauged by the tone of a statement issued yesterday by Mr Geralamo Pellicano, the Republican vice-president of the budget committee in the Chamber of Deputies. "If Telit were to fail it would be a grave matter for our telecoms strategy," he said, adding that Parliament should then investigate who was responsible.

For the moment, neither Iri-Stet nor Fiat are commenting on the Telit matter.

Bundespost to buy abroad

BY TIM DICKSON IN BRUSSELS

A SENIOR West German telecommunications official claimed yesterday that the Bundespost's equipment purchasing policy was becoming "more liberal."

Roughly 20 per cent of contracts were now being advertised in the European Community's Official Journal, and a rising number of companies were displaying interest in the opportunities, Mr Ernst Stoll, head of the telecommunications equipment purchasing department at the Bundespost Ministry, told a seminar in Brussels.

"There is no doubt about it, we will become more open in future," he added, though in answer to a question he indicated that there was unlikely to "be any threat to the strong position of Siemens" until the early 1990s.

The Bundespost's monopoly over telecommunications services and the local supply industry's near monopoly over telecommunications equipment for the West German market has come under increasingly sharp criticism both inside and outside the Federal Republic in recent months. Earlier this year the European Commission's Green Paper on telecommunications called for increased competition across a whole range of areas in an effort to improve innovation and enterprise in the industry.

Mr Stoll pointed out yesterday that so far this year the Bundespost had advertised 60 contracts in the EC Official Journal - or 20 per cent of the total - representing a total volume of business of DM2.067bn (£696m). This compared with just nine announcements in 1985 for contracts worth DM555m. The number of companies which responded with tenders rose from 15 in 1985 to 56 in 1987.

On the crucial question of how many had been successful, Mr Stoll said that "something less than 5 per cent" of the Bundespost's contracts were placed with foreign suppliers, "most of which are from the United States." He said that this figure went up to around 20 per cent if local companies with major foreign shareholders were taken into account.

Mr Stoll claimed that all the contracts advertised outside West Germany were genuine opportunities for outside companies. "I have seen the Japanese advertise in the Official Journal for concrete poles, a product which could hardly be supplied from Europe. We have done nothing like that."

Yesterday's seminar - organised by the Centre for European Policy Studies to discuss the speed and scope of liberalisation in the telecommunications field - brought together speakers from the European Commission and industry representatives.

France set for higher growth

By George Graham in Paris

FRENCH ECONOMIC growth this year should be much stronger than expected, thanks to buoyant consumer spending and exports, the French statistical office, Insee, said yesterday.

Insee now expects 2 per cent growth in gross domestic product in 1987, compared with its previous projection of 1.3 per cent.

The forecast is higher than the 1.5 per cent anticipated in the September budget forecasts of the Finance Ministry, which has often been irritated by what it has seen as Insee's excessive pessimism.

The new forecasts do not take account of the recent collapse in world financial markets, but the institute does not expect this to have any marked economic effects until 1988.

Insee says that despite a modest increase in purchasing power, household spending grew strongly in the second and third quarters, especially car sales.

Despite an increase in exports in the spring, France is expected to lose world market share this year and imports are expected to increase yet more strongly. Insee forecasts a foreign trade deficit of FFr20bn-FFr35bn for the whole of 1987.

Unemployment is also now expected to be lower than previously forecast, while disinflation should also continue. Prices, excluding energy, are expected to rise by 3.4 per cent in 1987.

Strike shuts Prado

The Prado Museum in Madrid closed its doors yesterday because of a staff wage dispute, Reuter reports. Prado staff have held a series of strikes in recent weeks. They want an average 28 per cent increase; the management is offering an average 12.5 per cent.

Dutch lower discount rate

By Laura Raun and Richard Cowper in The Hague

THE DUTCH discount rate was trimmed by one quarter of one per cent yesterday in a move that Mr Ruud Lubbers, the Netherlands' Prime Minister, said was "a signal" to a reluctant West Germany to lower its interest rates.

The unilateral move by the Dutch central bank to cut the discount rate to 5.25 per cent caught the financial community by surprise because the Netherlands almost always follows interest rate policy made in West Germany. In the wake of the worst stock market crash in modern history Mr Wim Duisenberg, President of the Dutch central bank, emphasised that the cut was aimed at stimulating the Netherlands' economy.

The economy is highly dependent on bilateral trade with Germany and was hardly expected to grow at all in 1988 even before the recent stock market collapse. Dutch Cabinet ministers have been keen to see West Germany and Japan take over from the US as motors of world economic growth.

In a comment on the Netherlands' largely symbolic move to cut all its official interest rates by one quarter per cent Mr Lubbers said: "West Germany and other European countries should utilise their capacities to grow."

Another reason for the Dutch interest rate reduction is the sharp appreciation of the guilder in recent weeks as the dollar has plunged. Over the past two years Dutch exporters have been badly hit by the rising guilder, slashing the trade surplus and biting into corporate profits.

Mrs Yvonne van Rooy, the Dutch Trade Minister, said yesterday that after the crash it would be "even more difficult for exporters to keep up their market share." This year exporters have accepted narrower profit margins to maintain world market share amid a strong guilder.

"You can't go on decreasing your margins for ever," she said.

Exports account for about two thirds of the Netherlands' gross domestic product.

Irish seamen to appear before French court

FIVE IRISHMEN arrested during the seizure of a small cargo vessel carrying 150 tons to 200 tons of arms are scheduled to appear today before an investigating magistrate in Paris, AP reports from Paris.

The five, identified as Mr Adrian Hopkins, Mr Henry Cairns, Mr Edward Friel, Mr Dennis Boyle and Mr William Flyn, were to be taken from the Brittany port city of Brest to Paris last night.

The case has been handed over to France's special anti-terrorist tribunal, which officials said had opened an official investigation for transportation of arms aimed at disturbing public order.

The five were arrested Friday night when customs officials boarded their 250-ton ship Eksund about 6 nautical miles off the northern Brittany coast near the island of Batz.

David White reports on Spain's uneven transition into the EC and warns of continuing friction with France

Disorganised lobby leaves Spanish farmers in the cold

The spiralling costs of the common agricultural policy threaten to undermine the European Community's attempts to provide a sounder basis for its future financing, the central issue at the heads of government summit in Copenhagen on December 4-5. In the second of a series of articles from national capitals, we look at the political, economic and social factors influencing individual governments on the farm issue

THE Spanish Ministry of Agriculture, a late Victorian pile topped with winged statues, ranks as the most imposing of Madrid's government buildings. But its architecture is not matched by political weight.

The minister, Mr Carlos Romero, is one of seven cabinet members who have kept the same posts under Mr Felipe Gonzalez for the past five years, but he maintains a low profile. In Brussels negotiations, his appearances are relatively infrequent, owing to an aversion to air travel and a tendency to delegate the task. A French or West German agriculture minister would not get away with it, but Spain does not have the same farm lobby.

EC diplomats complain of inconsistencies in Spain's position and the lack of a clear global view. Because of the long period of transition, the impact of EC membership on Spanish agriculture is difficult to assess.

When the ministry was built, agriculture and fisheries were almost half of the Spanish economy, but the sector has never been well orchestrated. The country's industrial take-off in the 1960s left agriculture behind. Although some kinds of farming - such as the vegetables grown under plastic in the arid south-east - have proved extremely dynamic, other aspects have hardly changed this century: from the two-cow farm of the north-west to the insecure day-labourers of Andalucia.

About 17 per cent of Spain's active population still belongs to the primary sector (farming, forestry and fishing), more than any EC country except Portugal and Greece, but their share of gross domestic product has shrunk to between 6 and 7 per cent, compared with 20 per cent 30 years ago.

The second EC country by area after France, Spain is mostly high and dry land, with average productivity reckoned at only 40 per cent of France's, with wild variations in yields of crops such as wheat. The capacity to raise output dramatically has been demonstrated in irrigated areas but in some regions, such as the recent boom area for maize and barley in La Mancha, the strain on water resources threatens to become acute.

The sector is marked by clear-cut regional disparities. Besides being a major producer of citrus fruit, wine and olive oil, Spain also has a wet Atlantic seaboard dependent on dairy and livestock, ill-placed to compete with the efficient farms of northern Europe. The farmers' lobby - though noisy enough - is divided and poorly organised.

These factors make it uncertain whether Spain will play a prominent role in the southern grouping of EC member states in lobbying for better treatment for its products in the common agricultural policy.

Less than a year after the country's first step into the CAP in March last year, farm vehicles were out blocking roads across the country. The tractoradas reflected a wide spectrum of complaints ranging from lemon growers facing a glut to pig-farmers unable to export to the EC for health reasons and subjected to an influx on their home market. Above all, the protests showed up farmers' frustration at the lack of information and consultation on the part of the authorities.

The protests, soon forgotten in a wave of industrial conflicts later in the spring, raised concern in the Socialist administration about the emergence of an anti-common market lobby, not on the left as in Britain, but rural and right-wing.

Three right-wing farmers' unions - CNAG, representing big farmers especially in the south, Ufade and an associated young farmers' organisation CNJA - outweigh the other two, Coag, an active left-wing group, and the small farmers' body Upa, which is linked to the Socialist UGT trade union federation.

These groupings up to now have co-existed with the remnants of the Francoist "vertical union" system, represented in the farm sector by some 8,000 local agriculture chambers, which are finally to be dismantled under a much-contested new law.

A further complication is regional devolution, which has transferred responsibilities in unequal measures to 17 autonomous regions. In Andalucia and Extremadura, regional governments have started land reform programmes, taking over selected farms and spurring others to switch to more productive and more labour-absorbing activities, which farmers argue are not necessarily those demanded by the EC environment.

EC entry will provide Spain with the opportunity to modernise its agriculture, at a cost to some regions and some products. Although it has been slow to develop the infrastructure needed to make full use of EC aid, it wants more Community money to be channelled into structural funds. To that extent, it is an ally for Britain in seeking to reduce the cost of the EC's guaranteed price system.

On the other hand, EC moves to squeeze the producers of surpluses create problems for the Spanish, who argue that their producers in these sectors - dairy or beef farmers, for instance - are the worst-off. The Spanish Government has also baulked at sharing responsibility for disposal of a butter mountain which Spain played no part in building up.

Despite complex transition arrangements, Spain's run-in has not been entirely smooth, upsets have come with the forced resumption of maize imports from the US - an obligation Spain now wants to share with its EC partners - and a battle this summer over low prices

for sunflower seed, a crop that has taken over large areas of the centre and south. Although Brussels came to the rescue by authorising exports, the conflict highlighted a problem which Spain also faces in cereals: earlier harvests than the big northern producers to whom intervention mechanisms are geared.

For many farmers, the impact of EC membership is still unknown. The most sensitive products have a 10-year transition rather than the standard seven. Fruit and vegetables effectively stay outside for the first four years and growers are left to wonder what will remain of the farm support structure after 1995, when they are fully integrated. The EC climate has changed since Spain first applied to join a decade ago.

The first year of membership coincided with bad crops and brought a deficit in Spain's farm trade. But this year has produced a turnaround, with a Pta 34.5bn (£173m) surplus in the first nine months, compared with a Pta 33.6bn shortfall in the same period last year, and the start of the season for mandarins and lemons has shown a sharp rise in exports to the Community.

The potential for friction inside the EC was exemplified this year when France sought safeguards against early strawberries from the southwestern province of Huelva. French producers in particular are nervous about the impact Spanish growers, spurred by a gold-rush mentality, can have on this kind of short-season, high-price product.

The French-Spanish border, scene of many an incident before entry, can be expected to remain an active battleground.

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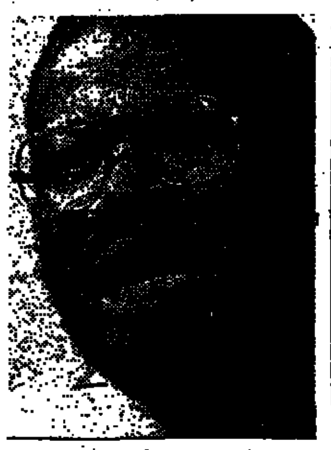
Botha, Buthelezi launch Natal joint executive

PRESIDENT P.W. Botha and Chief Mangosuthu Buthelezi, the Zulu leader, two politicians often at odds, joined forces yesterday to launch an unprecedented inter-racial regional executive body, AP reports from Durban.



Buthelezi: first step

The 10-member Joint Executive Authority will administer the joint affairs of Natal province and KwaZulu, the black homeland which Chief Buthelezi heads as chief minister.

President Botha said the new panel is "a much needed political reflection of a socio-economic fact, namely the interdependence of KwaZulu and Natal". In the past, the National Party which President Botha heads had envisaged complete separation of the nation's 26m blacks into individual tribal states scattered throughout the 87 per cent of South Africa that is designated for whites.

The Joint Executive Authority will have no legislative or fiscal authority. It will handle such matters as health services, roads and conservation for the roughly 7m residents of the region. Its members include five members of the KwaZulu Cabinet and two whites, two Asians and a person of mixed race from the Natal provincial government.

The two men spoke to a multi-racial audience of several hundred people at the Durban City Hall, including the 10 members of the new panel, Zulu King Goodwill Zwelithini, Natal province officials and Cabinet ministers.

Chief Buthelezi, who has frequently been critical of Mr Botha, praised him yesterday but urged the President to be bolder in persuing race reforms.

"I recognise you as a South African head of state who has done more than any other previous head of state to point this country in the direction of reform," said Chief Buthelezi.

"But I do not imply that we are anywhere near resolving our problems. What I am saying, is that with just a little more boldness we can get closer to resolving our complex problems," he said.

"There is no animosity between us. I believe that with negotiations, we can triumph," Chief Buthelezi told Mr Botha, who did not react, and did not applaud when the audience interrupted Chief Buthelezi's speech several times with applause. The two entered the hall separately and sat on either side of Chief Buthelezi's wife. They shook hands once but did not exchange conversation.

Chief Buthelezi said last month he had met Mr Botha only three times in his nine years as prime minister and president, and that they had had little to talk about because Mr Botha was not interested in discussing fundamental reforms of the political system to give blacks equal power.

KwaZulu, one of South Africa's 10 black homelands, has 4m residents living on 40 pieces of land scattered throughout Natal.

Chief Buthelezi and his Inkatha political organisation view the board as a first step toward implementation of proposals for an inter-racial KwaZulu-Natal government. These proposals were put forward earlier this year by a coalition of white and black groups, including white Natal politicians, following lengthy negotiations that were known as the Indaba.

Mr Botha has said little in public about the Indaba plan, which would result in a black-led regional government but which also makes provisions to safeguard white cultural rights. Members of the Botha Cabinet have made conflicting comments about the Indaba - some saying the proposals are promising and others saying they afford too little protection to whites.

Chirac boosts ties with Israel

By Andrew Whitley in Jerusalem

A NEW warmth has been injected into Franco-Israeli relations by the visit of Mr Jacques Chirac, the French Prime Minister, which ended yesterday. But the political gulf between the two countries over the future of the Palestinians remains as wide as ever.

At a press conference yesterday he restated the standard French position that the PLO was "a reality which could not be ignored" and "had to be taken into account." But, he hastened to add, it was not the only representative of the Palestinian people; nor was the creation of an independent Palestinian state between Israel and Jordan the only option.

During his 48 hours in Israel, Mr Chirac – the first French Prime Minister to visit the Jewish state – went out of his way to demonstrate his awareness of the suffering of the Jewish people. The programme included several visits to Jewish memorials.

Bilateral economic, cultural and scientific co-operation agreements were signed, in a demonstration of intent to improve practical co-operation. Credit for joint research projects was doubled.

But the tone of the visit was set during Sunday night's formal speeches, when the French Prime Minister told Mr Yitzhak Shamir, his Israeli counterpart, that the right of the Palestinians, to determine their own future should be recognized.

However, unlikely that prospect may be in the near future, given every Israeli Government's unrelenting opposition to the concept, the principle was being restated unequivocally in Jerusalem by a senior European leader.

Nor was there any bridging of the differences over the value of the promised international peace conference for the Middle East.

"I am more than ever convinced that it will result in a manifestation of anti-Israeli propaganda, and will not serve the cause of peace," Mr Shamir said.

Yesterday afternoon, Mr Chirac followed the familiar course taken recently by every Western politician and held a lunch meeting with a representatives group of Palestinian notables from the West Bank and Gaza.

Dhaka's opposition has found a belated unity, reports **Alistair Guild**

Ershad's opponents join forces

BANGLADESH IS in the throes of a political crisis which has thrown the country's two leading politicians together for the first time in a joint attempt to force the Government off stage.

But with six days left before a day of demonstrations designed to paralyse the administration of President Hosain Mohammad Ershad next Tuesday, observers are asking whether the measured reconciliation between Begum Khaleda Zia and Mrs Sheikh Hasina Wazed, the leaders of the two main opposition alliances, has not come too late.

What has started to unite the multitude of opposition parties is their shared belief that President Ershad remains a military dictator, that his return of the country to democracy last year was cosmetic and achieved through fraudulent elections and that widespread official corruption is diverting much-needed foreign aid.

They argue that the President's Jatiya Party, created by him after he took power in a coup in 1982, remains a facade for dictatorial rule. A key event in stirring the opposition was parliament's acceptance in July of the district council bill allowing the military to have non-voting representatives on the country's 64 local administrations.

President Ershad returned the bill to Parliament for more discussion after a wave of protest demonstrations and strikes virtually brought the country to a halt. The strikes were eventually called off because a flood disaster hit Bangladesh. But the opposition had scented blood.

There are more than 20 parties in the various opposition alliances. The right-of-centre group is led by Begum Zia's Bangladesh Nationalist Party and the left of centre group is led by Mrs Hasina's Awami League. A third alliance groups five Marxist-Leninist parties.

Mrs Hasina: Favours a Westminster style

The two women agreed that only by joining forces would they stand any chance of overthrowing the President. A liaison committee from all three groups has been meeting secretly and regularly to plan opposition action against President Ershad, a campaign which is also attracting student and trade union support.

The Government, confident though it remains, is taking the opposition tactics seriously. Several thousand opposition activists have been arrested, many of them in the countryside, and the numbers are growing daily. At least four members of parliament have also been detained. The leaders of the opposition parties are constantly on the move around "safe houses" in the capital. Many have gone into hiding.

It is possible that on the day of action President Ershad will close down the transport network, making travel from the outlying parts of the country to Dhaka for the demonstrations virtually impossible.

All the opposition alliances recognise that so far a lack of common objectives, other than the downfall of the President, has helped the Government. "The opposition parties have wanted to fight each other more than they have wanted to fight Ershad. That has been his strength," says Mr Haider Akbar Khan, a member of the politburo of the central committee of the Workers' Party of Bangladesh, one of the main parties in the Five-Party Alliance.

The opposition wants some form of non-military interim government, perhaps headed by the judiciary, which would then hold "free and fair" elections, although there is no agreement about how such polls should be monitored. Mrs Hasina wants new elections for a Westminster-style parliament, while Begum Zia favours the presidential system.

Even if President Ershad's Government were to fall next week, or soon after, the opposition would assume power at one of the most difficult times of year. The country, already hit by the floods and attempting to set up chains of distribution of food to the poor, faces annual shortages of food in January and February. This would make the start of any new government particularly precarious and would increase the chances of rapid military intervention.

Although the opposition complains that emergency food supplies have been diverted away from those in need, only the military has the resources to distribute relief effectively. This would give it a powerful lever against any government whose political complexion it did not like.

Were any of the opposition parties able to sustain power, the programmes they would pursue would differ radically.

Begum Zia, who believes President Ershad has "made corruption a fashion", says she would adopt the 19-point programme being pursued by her husband, General Zia, before he was assassinated in May 1981. The essential points are self-sufficiency in food, the provision of clothes, shelter, education and health and population control.

The main thrust of the Marxist-Leninist alliance's 12-point programme would be a large reduction in the military budget from its present level of 60 per cent of the total budget expenditure, a ban on imports of all luxury goods and radical land reform.

Mrs Hasina has been accused by some opposition parties of lending legitimacy to President Ershad's Government by participating in last year's elections which the rest of the opposition boycotted. She claims the opposition won the poll and was cheated out of its victory.

She said this week that the main points of her programme would be land reform and the redistribution of wealth. She is also likely to reverse the present Government's denationalisation programme.

However the most common view among diplomats here is that nothing much is likely to change after next week's demonstrations and that if President Ershad were to be overthrown, it would be by other generals and not by the opposition.

UK to give £25.5m in extra aid

By Alastair Guild in Dhaka

BRITAIN IS to give an additional £25.5m in aid to Bangladesh, Mr Christopher Patten, Minister for Overseas Development, announced yesterday at the end of a five-day fact finding tour of the country.

"I will tell the people of Britain how well you are using the help that has been provided, to give you more help and to pray for you," he announced to hundreds of people from the village of Tarash gathered to meet him, in one of the districts worst affected by the floods.

After a tour by helicopter and Landrover of projects run by the charities Concern and Oxfam and the Bangladesh Government he said: "The most successful schemes I have seen are those run by NGOs (non-government organisations), not just in disaster relief but in literacy tuition and community development, including primary health care and the provision of low-cost housing to replace those dwellings lost or damaged in the floods."

In Pabna, one district visited by Mr Patten, with a population of 1.7m, 31 people died, 92,699 acres of crops, worth Taka 31m (£590,000) were destroyed, 917 head of livestock were lost and 44,905 homes washed away.

Of the £25.5m pledged, in addition to the £5.5m announced in September as an immediate response to the flood disaster, £5.5m is to be channelled into food aid and through the NGOs, while the remainder is committed to commodity aid. Mr Patten said: "We will be discussing in the next few weeks how that commodity aid should be spent. I'm concerned to speed up the spending arrangements."

Fijian Indian exodus mounts

FIJI'S INDIANS, caught in a rising tide of indigenous nationalism following two military coups, are leaving the country in growing numbers, Indian community leaders said yesterday, Reuter reports from Suva.

Four thousand ethnic Indians have left since Col Sitiveni Rabuka staged his first coup five months ago. He mounted a second coup on September 25, again vowing to give indigenous Fijians perpetual political power.

The exodus is expected to continue in the coming months despite assurances

Tamil crisis talks plan

By John Elliott in Katmandu

PRESIDENT Junius Jayawardene of Sri Lanka is flying to New Delhi tomorrow for a day of talks aimed at reassuring the Indian Government that Sri Lanka is not backtracking on the peace accord signed between the two countries on the Tamil ethnic crisis at the end of July.

He was invited to spend the day in Delhi on his way home from the South Asian Summit in Katmandu by Mr Rajiv Gandhi, the Indian Prime Minister, during two hours of private talks in Katmandu late on Monday night.

This was the first time the two leaders had met since they signed the July agreement in Colombo and they reviewed the security situation in Sri Lanka, including continuing major clashes between Indian troops and Tamil Tigers.

Officials later raised India's concern that some of the devolutionary concessions agreed in July for the Tamils have not been fully inserted in two draft bills published last month on the constitutional changes and formation of new provincial councils.

Sri Lankan MPs warned

BY MERVYN DE SILVA IN COLOMBO

MORE THAN 100 government MPs in Sri Lanka received a "final warning" yesterday that they would be killed if they voted for two bills to implement the Indo-Sri Lanka peace accord. The bills will be presented in parliament next week. The letters, printed in blood, followed two warning letters last month.

Police say it is the work of the proscribed Peoples Liberation Front (JVP) which was responsible for a grenade attack in parliament in mid-August. An MP died in the explosion and several ministers, including Mr Lalith Athulathmudali, the National Security Minister, were seriously injured.

The bills, now before the Supreme Court, will be debated in parliament next week, if it is ruled that a national referendum is not required.

The main opposition party of Mrs Bandaranaike, the former Prime Minister, and a large number of Buddhist organisations have challenged the constitutional legality of the bills, which form the first critical step in implementing the peace-accord signed by President Jayawardene and Prime Minister Gandhi on July 29.

AMERICAN NEWS

Stewart Fleming on the likely departure of the US Defence Secretary

Weinberger succumbs to Detente II

MR CASPAR Weinberger, architect of President Reagan's $2 trillion arms build-up, fierce critic of arms control, and outspoken advocate of early deployment of the Strategic Defence Initiative, is reportedly planning to resign. The view in Washington is that President Reagan's Defence Secretary has been losing the internal debate about how to handle Moscow.

With Mr Mikhail Gorbachev, the Soviet leader, due to arrive in Washington next month to sign a treaty eliminating intermediate nuclear range missiles even White House officials have been describing the more co-operative relationship with Moscow as Detente II, a term which must make Mr Weinberger writhe.

But one Soviet expert in Washington pointed out yesterday that Mr Weinberger is nothing if not a fighter - "a bantam rooster" is the phrase he used. He would not be quitting simply because he had lost a bureaucratic battle.

This view suggests the illness of his wife is indeed a major factor in the decision Washington is confidently expecting Mr Weinberger to announce soon. That does not exclude the likelihood that Mr Weinberger has sniffed the political wind and decided that the last few months of Mr Reagan's presidency are going to see his policies further eroded. Most conservatives have recognised that reality.

Mr Weinberger's most visible and controversial legacy has been the massive expansion in America's military budget. Since 1982 defence spending has soared from $181bn to $274bn.

His supporters say he has carried out his president's goal of rebuilding America's military power, corrected the post-Vietnam erosion of the defence budget, and helped boost the morale of the armed services.

Moreover, by giving high priority to strategic weapons such as the MX missile, the B1 bomber, and the Trident submarine, it is argued that Mr Weinberger has ratcheted up the military budget and built some fat into the system. That will make it easier for the Pentagon to absorb the cuts in defence spending that the public as well as the Democrats on Capitol Hill are demanding.

Caspar Weinberger: hardliner

Mr Weinberger's critics are less sanguine about the Defence Secretary's record. They question not only whether the Pentagon has been spending heavily on the right things - the shortage of minesweepers to support the Gulf policy is seen as symbolic of inadequate strategic thinking - but whether by buying too many weapons which Washington cannot now afford Mr Weinberger has created problems for the future.

The capacity to use the weapons in the armoury effectively at short notice will again begin to suffer as budget constraints bite, it is argued.

Moreover the problems of wasteful procurement which helpled to sour the public mood against burgeoning defence spending will continue as budget saving stretch outs of existing programmes lead to increased unit production costs. Now the critics say is the time for choices about what weapons programmes America really needs and can afford.

The wider argument is that Mr Weinberger has encouraged his president's penchant for paying too little attention of the economic and diplomatic dimensions of national security and too much to the military dimension. With the Democrats in control on Capitol Hill, and a strategic thinker, Senator Sam Nunn, chairing the Senate Armed Services Committee, these are issues which are now being vigorously debated.

Mr Weinberger, the advocate of early deployment of SDI, has been a fierce opponent of arms control and is widely seen as sympathetic to the views of those conservatives who have argued that Washington's goal should be strategic superiority over Moscow.

But just as the broad parameters of the defence budget are not likely to be changed before Mr Reagan leaves office (further modest cuts in the 1988 defence budget are now all but inevitable) so too are the broad outlines of US-Soviet relations. Most experts believe that time is too short for this president to reach a strategic arms treaty, never mind for this Senate to ratify one.

So in leaving now Mr Weinberger can comfort himself with the thought that it will fall to the next president and Congress to make essential judgments on his policies.

First black at the centre of political power

Nancy Dunne on the likely new National Security Adviser

Lieutenant General Colin Powell, expected to succeed Mr Frank Carlucci as Mr Reagan's National Security Adviser, has in the American tradition travelled a long way from his humble beginnings as the son of Jamaican immigrants who struggled in menial jobs to make their way in New York City's South Bronx.

If appointed, Lt Gen Powell, now the deputy National Security Adviser and a three star general, will be the first black to hold the adviser's post. While other blacks have held cabinet positions and high ranks, none has come closer to the centre of power.

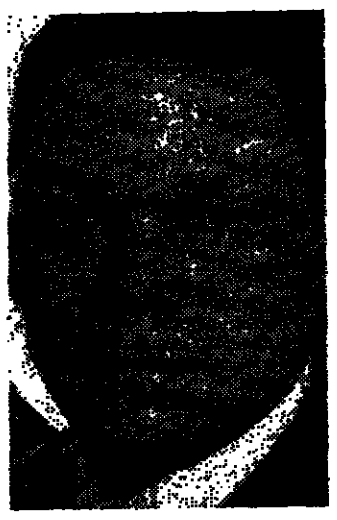
The opportunity would never have come if Lt Gen Colin Powell had not sacrificed a long term ambition to become the first black army Chief of Staff. He was on his way when President Reagan asked him - in the wake of the Iran-Contra affair - to give up a key command in Germany to become Mr Carlucci's number two.

Lt Gen powell's military and political career has repeatedly crossed that of Mr Caspar Weinberger, the retiring Defence Secretary, and Mr Carlucci. After serving in Vietnam, he was chosen as a White House fellow in 1972, where he worked under Mr Carlucci, then deputy director of the Office of Management and Budget. The head of the Office was Mr Weinberger.

When Mr Weinberger went to the Defence Department under President Reagan, Mr Carlucci followed as Deputy Defence Secretary. In 1983 after holding an army command, Lt Gen Powell, joined the team as senior military assistant. Acting under orders, he was responsible for transferring to the Central Intelligence Agency the arms sold to Iran last year.

Like Mr Carlucci, Lt Gen Powell has worked for and gained the respect of both parties. Mr Powell worked as senior military assistant to the Deputy Defence Secretary in the Carter Administration. The two are perceived as more moderate than past Reagan aides and have sought to improve the National Security Council's relationship with the press.

Lt Gen Powell, described as "the orchestrator" of national security decisions, heads the agency's policy review group, a high level inter-agency committee, which meets two or three times a week to discuss national security issues and to fashion consensus between the agencies.



Lt Gen Colin Powell: humble beginnings

US urges allies to endorse INF pact

By David Buchan in Monterey

THE US is pressing Allied defence ministers, meeting in California, for an enthusiastic endorsement of the impending Intermediate Nuclear Forces (INF) treaty with Moscow in order to speed its ratification by the US Senate next year.

Nato's Nuclear Planning Group (NPG) yesterday started a two-day meeting in Monterey, with its host, Mr Caspar Weinberger, urging his fellow defence ministers to look in a variety of ways beyond INF treaty signature, even though he himself appears to be stepping down after a near record seven years as US Defence Secretary.

While telling allies that enthusiastic European endorsement of the INF pact would impress doubters in the Senate, Mr Weinberger also issued a public warning that Cruise missiles should continue to be deployed in Europe until the very moment of Senate ratification.

He told a press conference on Monday that Belgium, the Netherlands and Britain should continue with Cruise deployment "until there is a binding agreement, completed in all its terms, that requires the Soviets also to take their missiles out."

There is a fear in some Nato quarters that the very act of treaty signature, as distinct from subsequent Senate ratification, will remove any European support for further Cruise deployment.

The crucial uncertainty at this NPG meeting turns on the fact that West Germany's attitude to the INF treaty is heavily conditioned by its misgivings about the next step in arms control.

Many allies, probably a majority and including the US and the UK, want no further nuclear disarmament in Europe down to the level of battlefield weapons, while Germany with some support from Norway, Denmark and Spain does not want to rule out further early reductions in short-range nuclear missiles.

Bonn would evidently like the NPG to firmly restate the compromise language agreed at the Nato Reykjavik meeting in June to the effect that short-range battlefield nuclear weapons as well as conventional forces and chemical weapons should be discussed in the next stage of arms control.

Carlucci waits to assume top post

MR FRANK CARLUCCI, who is in line to replace Mr Caspar Weinberger as US Secretary of Defence, has risen to the occasion to play key roles in four US Administrations, *AP reports from Washington*.

Mr Carlucci, who is the fifth National Security Adviser under President Ronald Reagan, took over as the Iran-Contra affair began to unfold and Rear Admiral John Poindexter resigned from the post under fire.

If he succeeds Mr Weinberger as expected, Mr Carlucci will have the most visible position in a career of public service which was interrupted from 1983–1986 by a stint in private enterprise.

Mr Carlucci was Deputy Director of the CIA under President Jimmy Carter and Deputy Defence Secretary in the first two years of President Reagan's Administration. He served as US ambassador to Portugal from 1974 to 1977.

He is the 57-year-old grandson of an immigrant Italian stonecutter and protege of Mr Weinberger and was the number two official when Mr Weinberger led the Office of Management and Budget and the old Department of Health, Education and Welfare under President Richard Nixon.

Since then he has seen his nominations to top federal posts questioned at separate times by liberals and conservatives.

The first time President Reagan tried to bring Mr Carlucci into the Administration, in 1981, there was vigorous opposition from conservative Senate Republicans. For some, Mr Carlucci seemed tainted by his CIA tenure under President Carter during years in which critics believed the intelligence agency was weakened.

Once confirmed by the Senate, Mr Carlucci was a staunch advocate of presidential policies as the Pentagon's number two official, talking of a "growing Soviet threat" and of the need to increase military spending accordingly.

He has been highly visible in the arms-control diplomacy with the Soviet Union, accompanying US Secretary of State George Shultz to Moscow last month. Mr Carlucci said last Sunday on a television talk show that a US-Soviet treaty on intermediate-range nuclear missiles should win Senate approval.

US-Japan move to ease tension over chip trade

BY LOUISE KEHOE IN SAN FRANCISCO

THE US and Japan appear to be orchestrating a relaxation of the tensions caused by their dispute over semiconductor trade. Both sides have this week moved to resolve some of the issues that have fuelled trade tensions between the two countries over the past year.

The US made the first move on Monday with a statement from Mr Bruce Smart, US Commerce Department Undersecretary for International Trade, in which he acknowledged that Japanese chip makers have stopped "dumping" memory chips in third-country markets.

Yesterday, the Japanese Ministry of International Trade and Industry (Miti) followed with a public statement of its intent to remove all production restrictions upon dynamic random access memory (DRAM) chips.

In recent months, the US electronics industry and US Government officials have objected strongly to Miti "guidance" to Japanese chip makers to restrict their output of DRAMs in an effort to end dumping and raise DRAM prices worldwide. Japanese chip makers produce an estimated 70 to 80% of DRAMs, the data storage chips used in all types of computers.

The next step in what appears to be an elaborate diplomatic effort to ease trade tensions will be a partial lifting of US sanctions imposed by President Reagan last April in retaliation for alleged Japanese violations of the 1986 US-Japanese Semiconductor Trade Agreement, according to US semiconductor industry officials.

The US is expected to remove or suspend $84m worth of the sanctions in recognition of an end to Japanese memory-chip dumping.

The American Electronics Association, a trade group representing a wide range of US electronics and computer makers, has already voted to endorse partial lifting of the sanctions, and the Semiconductor Industry Association, the US chip makers' trade group, said it would have "no objections" to anticipated reductions in the sanctions.

In a letter to President Reagan, delivered yesterday, the SIA recommended a partial suspension of the sanctions.

However, the SIA warned: "It should be understood that a resumption of dumping in memories or in other semiconductor products, or interference with supplies would cause revocation of this suspension. Still unresolved between the US and Japan is the issue of market access."

Trinidad to lift borrowing

By Canute James in Kingston

TRINIDAD AND Tobago's external borrowing programme of $220m for this year has fallen short of the target, forcing the government to increase domestic borrowing.

Mr Selby Wilson, Trinidad and Tobago's Junior Finance Minister, says that the government is still $50m short of total projected borrowing for the year of $303.2m which includes $83.2m on the local market. Local borrowing for this year has already reached $95.7m.

Bankers in Port of Spain, the capital, say the difficulty in raising foreign loans is linked to a fall in the country's credit rating because of deterioration in its oil-based economy over the past three years.

Haiti council building burned

FIRES BROKE out early yesterday at the office of Haiti's Provisional Electoral Council and at a business run by a council member, after the council disqualified 12 presidential candidates, AP reports from Port-au-Prince.

Most of the disqualified candidates were officials under the government of former dictator Jean-Claude Duvalier, who fled to exile in February 1986.

The first floor of the council headquarters was destroyed by fire shortly after midnight.

A few blocks away, Continental Trading SA a business operated by an electoral council member was destroyed by a fire that began about the same time.

WORLD TRADE NEWS

ECGD considers easing foreign content rules

BY PETER MONTAGNON, TRADE EDITOR

BRITAIN'S Export Credits Guarantee Department (ECGD) is considering easing its foreign content restrictions to make more medium-term capital goods orders elegible for export credit cover.

Mr Malcolm Stephens, chief executive, said yesterday an ECGD survey of its major customers had revealed widespread support for such a change. In practice foreign content for ECGD-backed projects is restricted to about 15 per cent of total value.

He told an export finance conference organised by Kluwer-Questmere that the capital goods industry was becoming increasingly specialised. This meant it was unlikely that all the procurement for major international orders could take place in one country.

Mr Stephens later declined to quantify the increase in the foreign content ceiling ECGD would like to see. This is still being discussed with the Treasury, he said, but he hoped the increase would be "worthwhile", making Britain one of the most flexible countries in this respect.

While industry would welcome such a change in the ECGD rules as a simple recognition of the growing practice of multi-sourcing of capital goods orders, it is also likely to be politically controversial. Mr Stephens acknowledged concern that the ECGD might be accused of using UK taxpayers' money to support other countries' exports.

Separately, he said ECGD was finalising guidelines enabling it to play a role in so-called build-own-transfer projects. These would be announced around Christmas, but would not involve 100 per cent unconditional guarantees and the essential nature would be risk-sharing with banks and contractors.

Turning to short-term export guarantees which make up the bulk of its business, Mr Stephens added that ECGD would next year step up its marketing activities in an effort to win more business from people who have not previously sought export cover. Particular efforts would be made in the invisibles and services sectors.

● Mr Clive Palmer, a senior official of the Department of Trade and Industry, told the conference that soft loan arrangements for China and Indonesia were now fully committed. No new projects can be considered under the facilities which total £300m and £140m equivalent respectively.

In contrast with the previous experience, funds earmarked for mixed credits from Britain's aid budget are also likely to be fully spent in 1987/8, he added.

Mitsui agrees $400m loan for Java chemical plant

BY JOHN MURRAY BROWN IN JAKARTA

MITSUI of Japan has agreed a $400m (£235m) loan for Pertamina, Indonesia's state oil company, to finance construction of a chemical plant in South Java.

The funding is provided under non-recourse terms whereby the lender is repaid out of revenues generated from exports. JGC of Japan is to lead the construction consortium.

The plant - one of a number of capital projects re-phased in 1983 - will produce paraxylene as a feedstock for Pertamina's purified terephalic acid (PTA) plant at Palembang in South Sumatra. High costs of paraxylene imports had on more than one occasion forced the PTA plant to close.

Around 100,000 tonnes will be consumed every year by the PTA plant, while 170,000 tonnes is targeted for export.

The agreement signed in Tokyo between Mr Abdul Rahman Ramly, Pertamina's president and Mr Terukazu Hyuga of Mitsui, is one of a series of resource-based projects to use non-recourse financing. Mr Ramly also signed an agreement with Chevron chemical company to handle exports from the plant.

Japan faces defeat in farm row with US

By Peter Montagnon

Japan appeared yesterday to be heading for defeat in its long-standing trade dispute with the US over its restrictions on the import of key farm products.

According to a Kyodo news agency report, a panel set up by the General Agreement on Tariffs and Trade (Gatt) has determined that import restrictions on 10 of the products concerned are in violation of its rules.

Gatt declined to comment on the report, but it is understood that the panel's findings were communicated confidentially to the two countries concerned within the past few days.

This is in line with the agency's normal procedure of allowing further time for a bilateral settlement to be reached before all Gatt members are formally notified of a panel's findings.

Kyodo said that the panel, which began its deliberations in March, found that Japan had no grounds for continuing import curbs on evaporated milk, processed cheese, prepared beef and pork products, fruit puree-paste, canned pineapples, non-citrus fruit juice, tomato ketchup, tomato sauce and grape sugar.

The panel also urged Japan to step up imports of leguminous peas and beans, about which the US had also complained.

Despite the panel finding, it will still take some time for the issue to be concluded. If no bilateral settlement is reached, the panel report would go before the full Gatt council for adoption.

This is not scheduled before next month at the earliest and even then, Japan may decide to reargue its case before the council, effectively blocking adoption of the report.

●The US House of Representatives votes today on a bill to ban a Japanese and a Norwegian campany from doing business with the Defence Department because they illegally sold equipment to the Soviet Union, Representative John Rowland, (Republican, Connecticut) said yesterday, Reuter reports from Washington.

A subsidiary of Japan's Toshiba and Norway's Kongsberg Vaapenfabrikk sold advanced milling machines to the Soviet Union in 1983 and 1984. The Defence Department said the machines helped the Soviets produce quieter submarine propellers.

William Dullforce reports on proposals to liberalise trade in services

US blueprint forces Gatt's hand

THE US yesterday presented its blueprint for the liberalisation of world trade in services. Its aim is a framework that would secure equal treatment for foreign and domestic purveyors of services, discipline state monopolies and ensure that information on all government measures affecting service industries is made public.

The proposal, tabled in the group negotiating on services in the Uruguay Round of the General Agreement on Tariffs and Trade, is aimed at forcing the pace in an area where Gatt's regulatory powers are being doggedly contested by an influential group of developing countries.

Washington expects governments to agree and, if possible, implement the framework at an early stage in the round. It would then become the point of departure for agreements covering specific service sectors.

Trade in services - such as intellectual property rights, on which the US submitted an ambitious plan last week - is one of the new Gatt items on the agenda for the Uruguay Round.

A definition of services has yet to be agreed, but they are commonly taken to include banking, insurance and other financial services, telecommunications, computer services, consulting, tourism, health, education and, in some books, transport.

According to the definition used, services are estimated to account for between 20 and 25 per cent of world trade and to be growing faster than merchandise trade.

What is certain is that they account for a larger proportion of gross domestic product than manufacturing industry in practically all developed economies and a rapidly increasing part of their exports.

Since the early 1980s the US, latterly with support from the European Community and Japan, has argued that the growing economic importance of services calls for internationally agreed trade rules.

Yesterday it became the first to table a formal proposal for such an agreement. So far the Gatt negotiating group has mainly discussed statistics and definitions.

The US blueprint recognises the sovereign right of every country to regulate its service industries. Its rules would apply only to measures that could restrict the operations of foreign service providers.

Thus the framework would cover the movement of services across borders and the establishment of foreign branches and subsidiaries producing or delivering services in a host country.

US officials say they are seeking a broad and flexible agreement which would result in a progressive liberalisation of world services markets without compromising any country's development objectives.

> According to the definition used, services are estimated to account for between 20-25 per cent of world trade and to be growing faster than merchandise trade

Equal national treatment is a key principle, requiring that foreign operations receive the same treatment from governments as that afforded to domestic service industries.

This would entail equal access to local distribution networks such as transport and telecommunications and access to local companies and personnel.

Foreign service providers should also be allowed direct contact with domestic customers and non-discriminatory access to licences and authorisations, the US proposes. Foreigners' right to use brand names would also be guaranteed.

Transparency is another concept the US wants incorporated in the framework. Governments would be obliged to publish in advance proposed regulations affecting services and allow those concerned to comment on them.

Rules governing the behaviour of monopolies, whether state-owned or private, would be written into the agreement. They would oblige monopolies to provide their services to foreign-based users on a non-discriminatory basis and prohibit them from cross-subsidising other competitive services from monopoly revenues.

Minimum standards of competence are frequently imposed by governments or professional bodies. The services framework, the US proposes, should ensure that licensing measures unrelated to competence were not used to raise barriers to foreign service providers.

On the use of government subsidies, the US suggests that export subsidies for service industries might be completely banned.

Countries signing the agreement should extend the benefits unconditionally to each other, the US proposes, but it recognises that some governments may choose not to sign. These would not then benefit.

The framework could be flexible enough to allow countries to make exceptions to its coverage, the US concedes, but the exceptions should be limited in number and extent.

A mechanism for settling disputes would also be provided

Moscow signs satellite deals

THE Soviet Union, in a move that may test the US Government's technology-transfer regulations, has signed three agreements with Western companies to launch satellites on the USSR's Proton rockets, it was announced in London yesterday, *Peter Marsh writes*.

The announcement came in the spirit of Mr Mikhail Gorbachev's much-vaunted *perestroika* (restructuring), with Soviet officials making it clear they were bending their normal rules over space operations to cater for Western tastes.

Customers will be allowed to accompany their satellites to the USSR's Baikonur launch site, so ensuring that Soviet technicians do not examine the vehicles.

The Soviet Union, besides signing up as its commercial agent for space launches Jardine Insurance Brokers, which is among the world's top 10 insurance brokers, has even borrowed for its marketing campaign the name of one of the West's favourite consumer items.

The trade mark for the launch service will be "Seven-Up", declared Mr Evgueni Louppov ,a senior engineer at the Soviet Union's Licensintorg trade organisation, who was in London yesterday to promote the new launcher service.

The somewhat heavy-handed significance of the name is that the USSR has made available to foreigners seven types of rocket.

A serious side to the launch campaign is that the three Western companies - the names of which the USSR is refusing to reveal on commercial grounds - will not be allowed to proceed with their plans unless the US relaxes its ban on US-made satellite parts being transported to the Soviet Union.

The US State Department announced a few months ago that the shipment of such components, which are present in virtually all Western-built satellites, would infringe its munitions-control regulations.

The move was seen as effectively vetoing Soviet efforts to move into the potentially lucrative market for commercial space launches.

But, according to Mr Maurice Brackenreed Johnson, deputy chairman of Jardine Insurance Brokers, the US is coming under pressure to relax its rules. "I believe the matter is coming near to resolution," he said.'

Leading the attempts to change US policy are satellite operators, which want the freedom to choose Soviet launch vehicles and so take advantage of the cut-price rates. Observers believe the US may be persuaded to alter its rules in the light of the generally more harmonious relations between Moscow and Washington.

Saudi minister warns EC on exports

A SAUDI Arabian minister has warned the European Community that Gulf Arab states could impose recicropal taxes on its exports unless it cuts its tariffs on Gulf petrochemicals, Reuter reports from Riyadh.

'But this will not lead anywhere in the long run and is not in the interest of the two parties,' Abdulaziz Abdullah al-Zamel, Industry Minister, said.

EC foreign ministers, meeting on October 20, postponed for a month a decision on whether to adopt a co-operation accord with the Gulf Co-operation Council (GCC) lowering EC tariffs on Gulf petrochemicals.

Mr Zamel said the GCC would await the Community's response. Trade between the two groups was worth $31bn last year, with the EC showing a $2.7bn surplus.

US hopeful on farm trade reform

By Bridget Bloom

THE US Administration hopes to see the conclusion of an agreement to reform world farm trade, involving the ultimate abolition of all farm subsidies, by the end of next year, Mr Richard Lyng, the US Secretary for Agriculture, said yesterday.

Mr Lyng, speaking in London on his way to the biennial conference of the Food and Agriculture Organisation in Rome, acknowledged that there were deep differences between the US and the European Community on farm reform.

The US, which has produced a "bold and radical" proposal for the abolition of all subsidies within 10 years, was "disappointed but not surprised" by the much more cautious proposals submitted by the EC last week to the agricultural negotiations sponsored by the General Agreement on Tariffs and Trade in Geneva, Mr Lyng said.

The US Secretary refused to be drawn on what compromises he felt might be made, but said he believed sufficient common ground existed between the two trading powers to make agreement in principle possible by the end of 1988.

However, the actual implementation of an agreement to phase out subsidies would have to take place gradually, probably into the next century, so as not to create "economic turmoil", Mr Lyng said

Mr Lyng's statement is more optimistic than many observers believe the facts warrant, following the submission of the EC proposals, which envisage continuation of Europe's agricultural protection.

On one key issue which threatens to divide the US and EC - that of hormones in beef - Mr Lyng suggested that a compromise was in the offing.

The US will apparently be prepared to accept a plan by the European Commision to allow individual member states to defer an EC ban on the use or import of beef produced with hormones.

The ban, which was agreed in 1985 to come into force on January 1, has angered the US, which claims that some $130m of meat exports produced with the aid of "growth hormones" could be prevented from entering the EC.

The Commission compromise, yet to be endorsed by governments, would allow individual member states to defer the ban, probably for 12-18 months.

FT LAW REPORTS

Foreign judgment defies international principles

DEUTSCHE SCHACHTBAU-UND-TIEFBOHRGESELLSCHAFT mbH v THE R'AS AL KHAIMAH NATIONAL OIL COMPANY v SHELL INTERNATIONAL PETROLEUM CO LTD.

Court of Appeal (Lord Justice Lloyd, Lord Justice Nourse and Lord Justice Woolf): October 29 1987

THE COURT will make absolute a garnishee order, though there is a risk that the garnishee may have to pay twice over, if the risk derives from a foreign judgment against him which was reached in disregard of a valid arbitration agreement and which cannot be recognised by the English courts.

The Court of Appeal so held when dismissing an appeal by Shell International Petroleum Co Ltd from Mr Justice Hobhouse's decision to make absolute a garnishee order against it. As garnishee, Shell was ordered to pay to judgment creditor, Deutsche Schachtbau-und-Tiefbohrgesellschaft (DST), trade debts owed by Shell to judgment debtor, *R'As Al Khaimah* National Oil Company (Rakoil) under an oil sale agreement. *Rakoil was not a party to* the appeal nor to the hearing before Mr Justice Hobhouse.

[A "garnishee" is a person who owes money to a judgment debtor, and who is ordered by the court to pay it direct to the judgment creditor towards satisfaction of the judgment debt].

The background to the appeal was that DST and Rakoil entered into an oil exploration agreement containing an arbitration clause. DST successfully referred a claim to arbitration, but could not enforce the award. It obtained leave from Mr Justice Bingham to enforce it as a judgment, so that the $4.6m awarded became a judgment debt. *Under an oil sale* contract Shell owed trade debts to Rakoil, enforceable in the UK. DST *obtained* a *Mareva* injunction freezing those trade debts in the UK, and sought a garnishee order against Shell so that they could be paid direct to DST in satisfaction of the judgment debt. The R'As Al Khaimah Government obtained judgment for the trade debts against Shell in the R'As Al Khaimah courts. In May 1987, Mr Justice Hobhouse made the garnishee order absolute.

LORD JUSTICE LLOYD said that on the appeal Mr Johnson's preliminary argument was that Mr Justice Hobhouse had no jurisdiction to make the garnishee order absolute, on the ground that there was no debt from Shell to Rakoil because Rakoil was trustee of the debt for the Government of R'As Al Khaimah.

The evidence of express trust was non-existent and the evidence of a constructive trust was very thin. The preliminary argument was rejected.

Mr Johnson's main point for Shell was that Mr Justice Hob*house, in making the garnishee* order, erred in the exercise of his discretion.

The question the judge asked himself was whether there was a "real" or "serious" risk that the Government of R'As Al Khaimah would succeed in executing the judgment which it had obtained in the R'As Al Khaimah court.

That test - whether there was a real or serious risk that Shell would have to pay twice over - treated the risk to Shell as if it were the sole factor to be taken into account in the exercise of the court's discretion.

There were other factors to be taken into account. The courts would, of course, have proper regard to the risk of a garnishee *having to pay twice over, but* that was not the sole consideration.

As a factor to be relied on in the present case, Mr Johnson emphasised the far-reaching and damaging consequences of a garnishee order in an international context. Shell had been caught up in a dispute with which it had nothing to do, through no fault of its own. If the order was made absolute it would be at risk in other cases and its world-wide activities would be greatly prejudiced.

He said there was evidence that the R'As Al Khaimah Government would be able to enforce the judgment in other United Arab Emirates or in member states of the Gulf Co-operation Council. It had shown its determination to execute the judgment by arresting the New London, a vessel on time charter to Shell.

Also, said Mr Johnson, execution by way of garnishee proceedings was an equitable remedy. There was a real or serious risk that Shell might be made to pay twice over. It would suffer a serious blow to its reputation in the Middle East if it allowed the *judgment to go unsatisfied. It* would therefore be inequitable to make the order absolute.

The factors relied on by Mr Grabiner for DST included, first, the judgment entered on the arbitration award in favour of DST pursuant to leave by Mr Justice Bingham. Rakoil had applied to set aside that judgment, but the application was refused by Mr Justice Leggatt. The Court of Appeal had affirmed Mr Justice Leggatt's order (see *[1987] 1 FTLR 17*).

By English law the judgment thus obtained by DST was impregnable. Furthermore, the debt which English law regarded as *due from Shell* to *Rakoil* was unquestionably situated within the jurisdiction of the *English court - "a debt arising in* any country may be discharged by the laws of that country" (see *Ellis v M'Henry (1871) 6 CP 228*).

Mr Grabiner also relied on the factor that the judgment obtained by the Government in the R'As Al Khaimah court could have no validity in English law, or under internationally accepted principles of private law. The contract of sale between Rakoil and Shell was governed by English law and contained a London arbitration clause.

English courts were statutorily *obliged* not to recognise the R'As Al Khaimah judgment by virtue of section 32 of the Civil Jurisdiction Act 1982 [which provides that a foreign judgment should not be recognised in the UK if the foreign proceedings were "contrary to an agreement under which the dispute in question was to be settled"].

Mr Justice Hobhouse, on the narrow approach which he adopted - that the only question was whether there was a real or serious risk of Shell's having to pay twice - took the view that DST was entitled to succeed by a narrow margin.

On the wider, correct, approach, the balance came down more firmly in favour of DST.

What convinced his Lordship that the order ought to be made absolute was the combined effect of Mr Grabiner's first and second arguments - that was to say the strength of the English judgment, the indisputable fact that the debt was situated in the jurisdiction, and the weakness of the R'As Al Khaimah judgment, which English courts were forbidden by statute to recognise.

There was some *risk that the* R'As Al Khaimah Government would succeed in enforcing its judgment by executing *on* Shell's assets in the Gulf or elsewhere. In view of the arrest *of New London, that risk might* be higher than Mr Justice Hobhouse thought. But it was still a risk at a fairly low level.

The judge was right to make the order absolute. The appeal should be dismissed. The question was whether it was fair to grant the remedy in all the circumstances, not just whether it was fair to the garnishee.

The court should do what it could to uphold the rule of law in international commercial transactions. Although Shell suffered the inconvenience of being made garnishee, it must surely be in its long-term interests, and those of any other company in world-wide trade, to uphold the system of international arbitration.

LORD JUSTICE NOURSE agreed.

LORD JUSTICE WOOLF, in a concurring judgment, said that in exercising its discretion the court should pay greater regard to the interests of the garnishee than those of the judgment creditor. If the garnishee could establish that a consequence of making the order absolute was that it would be subject to a serious risk of having *to pay twice*, the court would not normally make it absolute.

The *risk to* Shell *flowed from* the judgment given in favour of the Government by the R'As Al Khaimah court. In deciding the weight to be given to that risk, the present court had to consider the legitimacy of the judgment.

Because of the criticisms properly made of the judgment by Lord Justice Lloyd and the remainder of his reasoning, the garnishee order absolute should stand, notwithstanding the inconvenience and disadvantage to which Shell might be subject.

The appeal was dismissed.

For DST: Anthony Grabiner QC and Steven Gee (Herbert Smith & Co).

For Shell: David Johnson QC, Mark Havelock-Allan and Edmund Broadbent (Middleton Potts & Co).

By Rachel Davies
Barrister

UK NEWS

New targets for electricity sector will raise prices

BY MAX WILKINSON, RESOURCES EDITOR

MR CECIL Parkinson, the Energy Secretary, yesterday announced much tougher financial targets for the electricity industry, which will push up prices by about 15 per cent in the two years from April 1988.

The industry has been told that it must increase its real rate of return on its £37bn assets from the present 2.75 per cent required rate to 3.74 per cent in the next financial year and 4.75 per cent in the following year.

Electricity prices are expected to rise by 8 or 9 per cent from April and by about 6 per cent the following year.

Mr Parkinson told the House of Commons: "It must be right that the rate of return should rise to a level closer to that which nationalised industries are required to earn on new investment as a whole. This is currently 5 per cent."

This provoked immediate accusations from the Opposition and trade unions that the financial squeeze was designed to fatten the industry for privatisation later in this Parliament.

Mr John Prescott, Labour energy spokesman, said the changes would be "energy tax imposed solely for the Treasury's requirements".

The proposal was also condemned by Sir David Nickson, Confederation of British Industry president.

According to CBI estimates, a 15 per cent rise in electricity tariffs would load about £900m extra costs on to industrial consumers. Sir David said steel and chemicals companies would be particularly hard hit.

Mr John Lyons, general secretary of the Electrical Power Engineers' Association, said price rises were not needed to finance future investment. He said the industry would have repaid all its debt in three years and would be able to invest at the rate of £2.7bn a year without any increase in the real level of tariffs.

However, Mr Parkinson told the House that price rises were justified because the industry was moving from a period of excess capacity to a period of heavy capital investment.

Food industry accused of prejudice against women

BY JIMMY BURNS, LABOUR STAFF

PAY AND conditions of workers in the British food and drink industry show a marked bias against women, according to the first extensive study of sexual discrimination in the sector.

The study of 45,000 employees in 92 workplaces, commissioned by the GMB general union, says that unfair and unfavourable treatment was costing women £800m a year.

According to the study, women do not have equal access to overtime and bonus rates, and instead tend to be concentrated in low-grade, mostly part-time jobs.

The study found that male workers' share of the total income from employment was three times that of women. This is in spite of the fact that there are only one-and-a-half times as many men as women working in the sector.

The main reason for the gap in earnings is the difference in hours of work, with one third of women in the industry working part-time.

On average, part-time manual women workers, who earned enough to be above the £39 national insurance threshold, worked about 23 hours a week with an annual income of about £3,110.

ILO urged to study labour legislation

By Jimmy Burns, Labour Staff

THE International Labour Organisation (ILO) is being urged by a UK civil liberties organisation to consider whether the Government's new Employment Bill is in breach of international human rights.

The ILO has been approached by the National Council for Civil Liberties with a formal complaint about the Bill on the grounds that the new proposals may amount to unwarranted interference in the internal affairs of trade unions.

The NCCL said yesterday: "The Bill goes much further than the Government's previous trade union laws. It appears to breach the UK's international obligations to guarantee freedom of association."

The Bill was published two weeks ago and is currently being debated in parliament. The Government hopes it will become law by next summer.

The most controversial measure would give union members the right not to be disciplined by their leaders for refusing to join strikes, even if lawful, or for crossing picket lines.

Peter Riddell and **Janet Bush** report on reactions to the Chancellor's Autumn statement

Tory MPs rally round Lawson

BY PETER RIDDELL, POLITICAL EDITOR

THE AUTUMN economic statement was yesterday well-received by Conservative MPs as Mr Nigel Lawson, the Chancellor of the Exchequer, enjoyed his second parliamentary success in less than a week while brushing aside Labour Party attacks.

Mr John Smith, Labour's economic spokesman accused Mr Lawson of "complacency and self-congratulation" for missing an opportunity to promote expansion in Europe and offset any slowdown in the US, and for squeezing or cutting many public services.

The main Conservative reaction, expressed at a crowded meeting of the party's backbench finance committee, was of strong approval for Mr Lawson's approach. Tory MPs feel that there should be scope both for an early reduction in interest rates and for income tax cuts in next spring's budget, given the favourable trend in public sector borrowing.

After the finance committee, MPs reported that Mr Lawson said he hoped to be able to cut taxes next spring, but that it would be foolish to forecast this or to predict his Budget judgment now, in view of the uncertainties in the world economy.

Tory MPs were particularly pleased that Mr Lawson, who was at his most commanding, repeated his triumph of last Thursday night when he got the better of Mr Smith, Labour's most formidable debater over the BP share sale.

Mr Lawson appears to have decided to force Mr Smith on to the defensive before he has settled into his job as Shadow Chancellor - he remarked twice yesterday that Mr Smith was "new in his job."

Mr Lawson's reputation is now very high on his own side, and there is confidence in his ability to weather any further storms in the markets.

The statement has also boosted the standing of Mr John Major, the Chief Secretary to the Treasury since June, whom Mr Lawson said last night had been "absolutely superb" in his first public spending round.

The only real questions from the Tory benches last night concerned the proposed increase in electricity prices, though, in general, there was sympathy for the explanation offered by Mrs Thatcher and Mr Cecil Parkinson, the Energy Secretary, that the rises were justified by the need for extra investment.

Labour MPs privately acknowledge the difficulty of attacking Mr Lawson successfully at present, though they believe the economic tide may be about to turn against him. Mr Gordon Brown, the Shadow Chief Secretary, last night argued that the statement represented "a wholly wasted opportunity to use public investment intelligently to avert a downturn and a threat of rising unemployment."

Mr Brown said there would be no real improvement in the health service after taking account of inflation and that there would be real cuts in spending on employment, defence and local government.

Mr Alan Beith, the Liberal Treasury spokesman, said Mr Lawson was pushing his luck in assuming that all will go well with the US economy and that, even if he was right, spending had not been sufficiently raised to counteract the effects of the Stock Exchange crash or to ensure reductions in unemployment.

British financial markets give a muted response

THE REACTION of British financial markets to the Chancellor's statement was muted, partly because the speech contained few surprises and partly because traders were more concerned about international economic developments.

London share prices seemed to take little notice of the Autumn Statement and continued to track Wall Street, which fell sharply yesterday afternoon.

UK Government bonds closed around ¾ point higher, mostly reflecting the continued switching out of equities into fixed-interest markets which has been a feature of the recent collapse.

The UK Government bond market is more concerned about the contents of the Chancellor's Mansion House speech today, particularly in the wake of yesterday's official reserves figures which provided evidence of heavy intervention to cap sterling in the foreign exchange market last month.

The expansionary effect of intervention against sterling on the money supply can only be neutralised by the sale of more gilt-edged stock, which could depress prices. The gilt market is looking for a detailed exposition in the Chancellor's Mansion House speech tonight of Government policy towards the exchange rate, intervention and the money supply.

One of the most notable, and least surprising, elements of yesterday's Autumn Statement was the Chancellor's acknowledgement that this year's Public Sector Borrowing Requirement will undershoot its target by a substantial margin and the assumption of a very low - £1bn - PSBR next year.

City economists believe the Chancellor will be able to announce a £1bn or even zero PSBR in his budget in March and still have room for £2bn to £3bn in tax cuts.

On other aspects of yesterday's statement, however, economists had no common view, a lack of unanimity which probably reflected current uncertainty about the potential impact of falls in global equity prices on the US economy and, by extension, world growth next year.

Mr Gavyn Davies, Chief Economist at US securities house Goldman Sachs, said Mr Lawson's forecast of 4.5 per cent inflation at the end of next year was probably overly pessimistic, while his forecast of a £3.5bn current account deficit looked too optimistic.

Foreign reserves rise by record £3.8bn in October

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

BRITAIN'S FOREIGN exchange reserves surged by a record \$6.7bn (£3.85bn) last month as the Bank of England sought to hold down sterling's value against the D-Mark and joined other central banks to support the dollar.

The size of the underlying increase, which startled City economists, in part reflected the Bank's receipt of \$1.5bn in foreign currency from the overseas underwriters of the BP share offer. But even excluding that factor, the rise was above the previous record jump of \$4.8bn in May this year.

Much of the intervention was in the last half of October, when the pound persistently threatened to break through the DM 3 level the Government has set as a ceiling for the pound's value against the West German currency. A much smaller amount reflected action with other central banks to support the dollar under last February's Louvre agreement.

The official line in Whitehall yesterday was that the Bank would continue to intervene as necessary to maintain a stable pound against the D-Mark and to fulfil its commitments under the Louvre agreement.

It was also pointed out that the Government intended to continue mopping up the additional liquidity caused by intervention with sales of gilt-edged stock. In spite of the large scale of intervention this year, the Bank has found it relatively easy to boost its sales of gilts.

Officials said yesterday that a high proportion of those government stocks were going to the same overseas investors whose funds were putting upward pressure on the pound.

In private, there are official doubts, particularly in the Bank, over whether the present pace of intervention should be sustained indefinitely. When it was intervening heavily before the general election, the Bank viewed purchases of dollars as easily reversible once the factors linked to the election had been removed.

The scale of last month's intervention, however, suggests that upward pressure on the pound represents a more permanent problem, particularly as the dollar continues to weaken against all leading currencies. The Bank also faces large potential losses on its intervention as a result of a weaker dollar, although it has been trying to limit the risk by swapping some of its purchases of the US currency for D-Marks and yen.

In those circumstances, the authorities are likely to weigh the options of further cuts in interest rates to reduce sterling's attractiveness, or of allowing the pound to rise above DM 3.

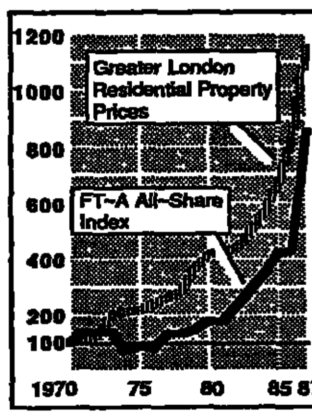
The latter option might severely damage industrial confidence, particularly if a move above DM 3 prompted a further large inflow of foreign funds. Against that, the Bank is unlikely to favour too rapid a reduction in interest rates at a time when credit demand is buoyant.

Yesterday's figures show that the Bank's overall reserves stood at \$41.4bn at the end of October, \$17bn higher than at the start of the year.

Share price fall 'could cut 10% off property prices in south'

BY ANDREW TAYLOR

SOME HOUSE prices in central London and southern England might drop by up to 10 per cent after the stock-market fall, says Savills, a leading national estate agency, in a study published yesterday.



The firm says it is not forecasting a general slump in house prices but disagrees with other agents that have said the housing market will not be affected by the fall in share prices.

Savills says prime, well located properties in central London will retain their value but that the prices of others in less well located positions, some of which have been fetching up to 15 per cent above market value, might fall by as much as 10 per cent.

The commuter belt, especially south of London, is likely to see a drift in value over the winter months of about 5 per cent to 10 per cent, says Savills.

The strength of the national and local economies, outside of the City's influence, were expected to underpin prices in some areas.

They include areas west of London, where there was a continuing shortage of quality property, and East Anglia, where house prices have risen sharply this year on the back of improved communications. Savills did not expect to see further house-price rises in either region until next spring at the earliest.

It says the central London market has been largely unaffected. "Nevertheless we recognise that the residential investment market could easily be vulnerable - bonuses which form a substantial part of many pay packages may be decreased and there is increasing evidence of lay-off of City workers."

That may have a sobering effect on house purchasers' aspirations and ability to buy investment properties, says Savills.

It says: "All markets are founded on confidence and there can be few in the property world who have not been concerned as to how the stock-market collapse will affect their marketplace.

"In uncertain and volatile markets, liquidity is desirable and house ownership is relatively illiquid. It is likely therefore that in the next few months turnover will slow down."

It says buyers will now be in a position to bargain while sellers will have to be realistic when putting a price on their homes.

● Builders started work on 2 per cent more private homes in this third quarter, compared with the corresponding three months last year, according to Environment Department figures issued yesterday. A fall in public house building meant total housing starts were 2 per cent lower than a year ago.

Co-op offers deposit-free holiday booking

By David Churchill

THE CO-OP Travelcare travel agency chain yesterday became the first travel agent to offer a no-deposit scheme for customers booking summer holidays.

While most of its rivals have introduced a £5 deposit, Co-Op Travelcare has decided that a "book now, pay later" scheme is more attractive.

Mr Mike Grindrod, the company's general manager, said yesterday: "We recognise the pressure on our customers' budgets in the run-up to Christmas and we are determined to give them the best deal."

Travel agents are trying to persuade consumers to book summer holidays early, rather than wait for last-minute bargains.

Tenancy transfer plans detailed in green paper

FINANCIAL TIMES REPORTER

THE GOVERNMENT yesterday published details of how it intends to legislate to allow council tenants to transfer to another landlord.

In its housing white paper in September, the Government announced its proposed Tenants' Choice scheme to complement the right to buy. An explanatory green paper published yesterday by the Department of the Environment claimed that Tenants' Choice would "open up the closed world of the local authority housing estates to competition and to the influence of the best housing management practices of other landlords."

The DoE argued: "Many people still rent homes from their local council because they see no alternative, rather than because they actually want to. Many tenants may prefer smaller, less remote landlords."

Its green paper proposes that council tenants will have the right to ask an independent landlord to take over ownership of their homes. The landlord could be a housing association or other independent housing body, a tenants' co-operative or a private company. They would be approved by an authority which will be designated in the legislation.

In blocks of flats, tenants will be able to exercise Tenants' Choice collectively. Tenants of houses could act in groups or estates, but also individually. The DoE says no secure tenant will have to change landlords unless they wish to.

The council will have to quote a price for the market value of the freehold and if agreement with the new landlord proves impossible the district valuer will decide.

The new landlord will have to give all occupants a notice for the terms of tenancy, including rent. If a majority of tenants vote against, the application will fall. If a majority is in favour, those secure tenants who voted against will remain tenants of their existing landlord unless they withdraw their objections.

The new landlord will need the consent of the Secretary of State before the disposal of property acquired under Tenants' Choice.

Insurers sell and buy back 105m BP shares

By Richard Waters

A GROUP of insurance companies which acted as sub-underwriters to the British Petroleum share issue yesterday completed an arrangement to sell and buy back 105m of the oil major's shares at substantially below the prevailing market price.

The deal, intended to establish a loss for tax purposes, was described by the Stock Exchange as "normal under our rules."

But the size of the discount to the market at which both the sale and the repurchase were done - more than 12 per cent - seems certain to attract the attention of the Inland Revenue.

The sale, carried out by Phillips & Drew at a price of 70½p, enabled the insurance companies to realise losses of £52m on shares for which they paid £126m. The sale price was only ½p above the price at which the Bank of England said it would buy back the shares.

At the time of the sale on Monday evening, the partly-paid BP shares were trading at 81½p. Selling at that rate would have crystallised a loss of only £40m.

Phillips & Drew, which took the shares on to its own book overnight before selling them back the next day, is believed to have made a "turn" of $\frac{1}{16}$ per cent - or £4.6m.

"When looking at how losses have been established for tax purposes, our inspectors will need to ensure that everything was above board," the Inland Revenue said yesterday.

Prices out of line with the market do not automatically undermine the transaction for tax purposes, but are likely to act as a strong warning signal to the taxman.

Under Stock Exchange rules, a sale and repurchase is allowed provided it is done with a market maker, is carried out within the normal dealing period and involves separate selling and buying instructions from the client.

All these conditions were met, the exchange said - even though the sale was not actually reported on the exchange's transaction reporting system until after dealing had ended for the day.

Insurance companies are believed to be the only group among British underwriters and sub-underwriters who are able to realise a loss for capital gains tax purposes on their BP shares.

Any shares held by the primary underwriters are "marked to market" for tax purposes - in other words, gains or losses on the shares are automatically included in their trading figures, without the shares needing to be sold to a third party.

Of the sub-underwriters, some financial institutions would be able to mark to market, while pension funds are not liable to capital gains tax anyway.

Tax experts yesterday said that there would be pressure on the four US underwriters to BP also to engage in sale and repurchase operations to realise their losses.

Unisys drive to broaden PC base

By Terry Dodsworth, Industrial Editor

UNISYS, THE US-based computer maker, aims to broaden its base in the personal computer trade by a sales drive in the general corporate market. It said a model range introduced this week would let it expand from its traditional market selling to clients already using its larger mainframe computers.

A.H. Hermann reports the views of the new Lord Chancellor

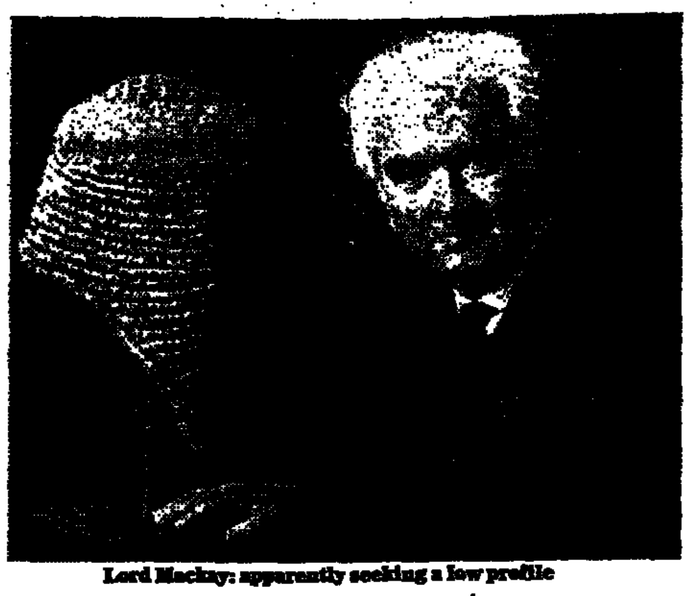
Astute politician enters the Cabinet

LORD MACKAY of Clashfern, an experienced advocate, law officer and Law Lord, proved yesterday in his first press conference as Lord Chancellor that he is also an astute politician.

He displayed an approach less ideological than that of Lord Hailsham and less rigid than that of Lord Havers, his immediate predecessors. He rejected few of the legal reforms now under discussion but confirmed none of those which are controversial, except for one which has Cabinet backing.

That is the possibility that the Court of Appeal could increase sentences regarded as too lenient on an application by the Attorney General. The measure is proposed in the Criminal Justice Bill, which Lord Mackay now has to defend against vocal opposition of past Lord Chancellors and senior judges in the House of Lords.

He emphasised that the number of such cases was likely to be very small and spoke from his own experience of the heavy responsibility felt by a judge when jailing a convict.


Lord Mackay: apparently seeking a low profile

Another area in which the new Lord Chancellor seems ready to move cautiously ahead is the appointment of judges. Although intending to follow the system of departmental and judicial consultations developed by Lord Hailsham, he admits the possibility of improvements and seems to be ready to look for suitable solicitors to be appointed circuit judges.

Lord Mackay rejected, as being outside his competence, the suggestion that he should try to get more money from the Cabinet for the ailing Crown Prosecution Service. He remained non-committal on the issue of the fusion of the legal profession.

He spoke positively, however, about the intermediary role that legal advice centres could play by helping clients to determine what sort of legal problem they had and where they should seek help or advice.

Lord Mackay confirmed that he remained interested in the efforts to improve the drafting of statutes. But he thought the present shortcomings were not necessarily due to the methods employed by the parliamentary counsels.

He was asked about his policy regarding the reforms proposed by the Civil Justice Review initiated by Lord Hailsham and opposed by Appeal Court judges, represented by Lord Lane, the Lord Chief Justice, and Sir John Donaldson, Master of the Rolls.

Lord Mackay said he would consider carefully the view expressed by the judges but would also consult other parties. He would not propose to do anything to interfere with the independence of the judiciary but would try to provide the facilities and assistance needed, in particular by improvements to the Royal Courts in the Strand.

He admitted that it was sometimes difficult to determine the boundary between judicial work proper and the administrative assistance to be provided by his department. But, he said, he would attempt to resolve those issues in such close co-operation with the judges that the question of boundary would not arise.

When asked about his likely role in the Cabinet, Lord Mackay emphasised his inexperience in economic matters but expressed the hope that his legal experience might enable him to contribute to the solution of issues requiring the reconciliation of opposed points of view. Having been surprised by his appointment to the Cabinet, he apparently intends to maintain a low profile there.

Tebbit to join board of BT

BY DAVID THOMAS

MR NORMAN TEBBIT, who is shortly to give up the chairmanship of the Conservative Party, is to join the board of British Telecom as a non-executive director.

Mr Tebbit, who steered the privatisation of BT through parliament when he was Trade and Industry Secretary, is likely to be particularly useful to the company in advising on a number of regulatory and government decisions due in the next two years.

"I'm going to a company where I laid down a lot of the ground rules and the structure," Mr Tebbit said last night.

A decision is expected next year on whether the Government will sell its remaining stake in the company. BT is also likely to face an investigation of the formula that will govern its price changes into the 1990s.

In 1989, the Government is due to decide on whether to increase competition for BT by allowing companies to act almost as sub-contractors by leasing circuits from BT and then reselling them. The question of whether the duopoly held by BT and Mercury Communications should be broken is expected to be settled the following year.

Mr Tebbit may also be called on to advise BT on how to improve its low standing with the public.

The National Communications Union, the largest BT union, last night reacted mildly to the appointment of Mr Tebbit.

The NCU said they welcomed someone with his experience in the field, but hoped he would consider the interests of the workforce, as well as those of the shareholders and customers.

The appointment brings to four the non-executive directorships held by Mr Tebbit in major companies, the other three being Blue Arrow, BET and Sears Holdings. Non-executive directors of BT are paid upto £20,000, according to the company's accounts.

Call for electricity 'yardstick'

BY MAURICE SAMUELSON

A CONFERENCE on electricity privatisation will be told today that the industry could be made more competitive without being dramatically restructured.

Dr George Yarrow, of Hertford College, Oxford, will tell the Institute of Economic Affairs that this could be achieved by exposing area boards to "yardstick" competition and by giving private electricity producers guaranteed prices to sell to the Central Electricity Generating Board.

According to Dr Yarrow, there is no need to be "unduly pessimistic" about prospects for increased competition if the Government decides against comprehensive restructuring of the CEGB.

"British privatisation policy towards electricity and water offers an excellent opportunity to introduce yardstick competition and for Britain to take an imaginative step forward in developing pro-competitive regulatory policies," he says.

Yardstick competition is a method of requiring allowable prices for a distribution company to depend upon performance data from other distribution companies.

Dr Yarrow says in the absence of comprehensive restructuring, policymakers should aim to weaken the CEGB's information monopoly.

The first could be achieved by divesting the board of some generating assets. Even if only a fraction of existing capacity were disposed of, more competitors could have incentive effects on bigger dominant companies and could provide regulators with valuable information.

C4 'vital to democracy'

By Raymond Snoddy

SIR JAMES CALLAGHAN, the former Labour Prime Minister, yesterday attacked any plans to sell off the Channel 4 television service

Speaking at the annual lunch of Tyne Tees Television, the independent television company that covers north-east England, he said it was vital to protect alternative sources of information in society.

Sitting beside him was Lord Whitelaw, Lord President of the Council.

Sir James said: "If we sell off Channel 4 into the hands of semi-monopolists, or those rich enough to control other channels of communications, that will be a weakening of democracy as I understand it."

Ending import agreement 'would cut UK car prices'

BY JOHN GRIFFITHS

CAR PRICES would be lowered by 11 per cent if the "gentlemen's agreement" restricting the Japanese share of the UK market was ended, a meeting organised by the Centre for Economic Policy Research was told yesterday.

The current "voluntary" export restraint on Japanese manufacturers was a wasteful means of protecting UK motor industry employment, costing between £50,000 and £70,000 for each job saved, said Professor Alisdair Smith, co-director of the CEPR's international trade programme and professor of economics at Sussex University.

The restraints, by restricting supply, resulted in car prices being higher than they would otherwise be, said Prof Smith.

Removal of the restraints would produce a saving of between £80m and £120m for UK buyers.

But the higher prices did not increase the UK Government's tariff revenues - and thus effectively benefited Japanese producers.

An import tariff that preserved the same level of UK car output would cost only half as much as the present restraint arrangements, said Prof Smith.

His estimate of savings of £80m-£120m compares with one of £180m previously arrived at by London School of Economics researchers

Buy-out hotline for managers

By Anthony Moreton, Welsh Correspondent

AN INFORMATION hotline for small-business management in Wales interested in buying out their companies has been set up in Cardiff by the Welsh Venture Capital Fund.

The intention is to offer managers confidential and immediate advice through a Freefone link.

"We are not looking to assist the multi-million-pound concern," Mr Norman Myerscough, the fund's manager, said yesterday, "so much as people in companies with capital of between £500,000 and £1m.

"We would even be interested in helping those still smaller."

One of Mr Myerscough's concerns is that buy-outs in Wales have lagged behind those in the rest of the UK. "We are therefore trying to get through to the manager who might be out of touch with mainstream lines of advice," he said.

Mr Myerscough said that all aspects of the buy-out process, from negotiating a price to raising investment backing, would be available. "Busy managers usually have to tackle areas in which they have no previous experience.

The Welsh Venture Capital Fund manages reserves of £5.6m raised by 17 investors in the principality.

Storm damage claims total about £500m

Financial Times Reporter

ESTIMATES by insurance companies indicate that last month's storm and floods will cost them about £500m in insured losses, the Association of British Insurers said yesterday.

The figure does not fully represent the scale of the damage that took place because uninsured losses are not included.

Mr Mike Jones, the association's chief executive, said: "The figure of £500m we have announced today - although still provisional - is based on more reliable data than previous speculative figures, a number of which have overstated the likely scale of insured damage."

Three in Guinness case bailed until April 12

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

THREE of the men facing criminal charges arising out of the Guinness affair appeared together in the dock at Bow Street magistrates court in London for the first time yesterday.

Mr Ernest Saunders, the former Guinness chairman and chief executive, Sir Jack Lyons, the millionaire financier, and Mr Roger Seelig, the former Morgan Grenfell corporate finance director, were all remanded on bail until April 12 next year.

On that occasion a date will be fixed for the prosecution's application for the three to be committed for trial at the Old Bailey.

Yesterday was Mr Saunders's fifth appearance at Bow Street since his arrest on May 7. It was the second appearance for Sir Jack Lyons, who was arrested on October 8, and for Mr Seelig, arrested on October 15.

The three accused men arrived at and left the court separately without speaking to reporters.

Mr Saunders faces 40 charges, Sir Jack nine and Mr Seelig 12. In each case the charges include allegations of theft from Guinness.

Mr Victor Temple, prosecuting, told Sir David Hopkins, the chief magistrate, that it was anticipated that the prosecution's evidence would be served on the men's lawyers from the middle of this month; that by February preliminary views as to the mode of committal would be made available to all parties; and that a decision about committal would be made in March or April.

Mr Temple said he did not anticipate that the court would be troubled again until April 12 but "in a case of this magnitude and complexity, as a courtesy to the court, should the position change the court will be the first to know."

Mr Saunders, Sir Jack and Mr Seelig are all on £500,000 bail, in each case on two sureties of £250,000. Mr Saunders's sureties are Mr "Tiny" Rowland, head of Lonrho, the multinational trading group, and Mr Herbert Heinzel, head of Heinzel (London & Vienna), manufacturers of frozen cakes.

Those standing surety for Sir Jack Lyons are his daughter-in-law, Mrs. Miriam Lyons, and Mr Ian Morrison, a company director. Mr Seelig's sureties are Sir Terence Conran, chairman of Storehouse, the High Street conglomerate that includes Habitat, Mothercare, British Home Stores and Richard Shops, and Mr Paul Hamlyn, a publisher.

Mr Saunders faces 10 charges alleging the theft of £21.067m and $4.8m from Guinness; 10 of procuring the execution of a valuable security; 10 of false accounting; five of enabling Guinness to give financial help for the purchase of its own shares; two of conspiracy to create a false market in shares, and one each of intent to pervert the course of justice, destroying documents and falsifying documents.

Sir Jack Lyons is charged with two offences of stealing a total of £3.25m from Guinness; two of supplying false information; two of deception; one of supplying a falsified document; one of using a false instrument, and one of aiding and abetting Guinness to give financial help for the purchase of its shares.

The 12 charges against Mr Seelig are three of aiding and abetting Guinness to give financial help for the purchase of its shares; three of falsifying documents; two of procuring the execution of a valuable security; two of stealing a total of £2.95m from Guinness; one of conspiracy to create a false market in shares, and one of supplying false information.

Matsushita in European plans

BY DAVID THOMAS

MATSUSHITA, the big Japanese electronics group, is considering plans to build several manufacturing plants in the UK and continental Europe.

The company is accelerating plans to produce more outside Japan because of the high value of the yen and worries about anti-dumping duties imposed or being considered by the European Commission.

Mr Masahiko Hirata, Matsushita senior managing director and chief financial officer, said in London that the company's overseas capital investment would be $240m (£138m) this year, 57 per cent more than last year, with overseas production up 20 per cent at $3.08bn.

The company has decided to start making cellular telephones in the UK, a market where its Panasonic subsidiary has been highly successful. An announcement is expected before the end of the year and the company is being lobbied hard by representatives of various UK regions, although it has not yet been decided where the plant should be.

Matsushita may also decide to move to Europe production of some facsimile equipment, in which it is a market leader. It is considering making key components for microwave ovens in Europe: if that is approved, it is likely to happen at the company's Cardiff factory, where it assembles the ovens.

Mr Hirata disclosed that Matsushita was considering making compact disc players in Europe, although no location had been picked. It might increase European production of components such as tuners for video and audio equipment.

In the past year, the company has started making a range of products in Europe. They include microwave ovens, printers and electronic typewriters in the UK, copiers and electronic motors in West Germany and video recorders in France and Spain.

However, the company is more likely to choose the US than Europe for its first semiconductor manufacturing operation outside the Far East.

Taxpayers 'will suffer' if Revenue powers extended

BY RICHARD WATERS

TAXPAYERS will suffer if proposed rules extending the powers of the Inland Revenue are enacted as planned in the next Finance Act, say tax advisers.

In separate submissions to the Inland Revenue, the Institute of Taxation and the Institute of Chartered Accountants in England and Wales highlight what they claim is a series of moves that will harm the rights of taxpayers.

The proposals represent the final stage of the Government's moves to reshape the enforcement powers of the Inland Revenue and HM Customs & Excise. The review was set in train by the Keith Committee, which began work in 1980.

Among the tax practitioners' objections are:

- The Revenue would have the right to reopen tax assessments for previous years. That should happen only in cases of fraud, say the two institutes.
- Taxmen would be able to launch "fishing expeditions" to trawl through companies' files. Again, the tax experts say that power should be restricted to cases of suspected serious fraud.
- Automatic penalties for tax misdemeanours would not operate fairly. In particular, a taxpayer who made a mistake in a tax return that he later reported to the Revenue would not escape the penalty.
- The Revenue would be able to examine advice given by outside experts. Accountants are particularly upset by that: lawyers are protected by privilege from giving such information and so would be at a competitive advantage at a time when they are competing more aggressively with accountants.

Poll tax 'will worsen inner city problems'

By Richard Evans

THE GOVERNMENT'S proposed community charge will worsen the problems of the inner cities and of the poor, the Low Pay Unit suggests in a detailed analysis of the effects of the poll tax published today.

Ethnic minorities are likely to suffer disproportionately because of their concentration in inner-city areas, their larger average household size and their lower average earnings.

Based on a recent estimate that the average number of adults per household is 2.7 (Asian), 2.3 (West Indian) and 2.0 (white), the combined effect of geographical location and household size means the average poll tax bill for households of West Indian origin, for example, would be about £800 compared with £400 for white households.

That was largely because of the poll tax's impact on inner cities. In inner London, which houses 38 per cent of West Indians and 21 per cent of other ethnic groups but only 4 per cent of the country's white population, the average community charge is likely to be £577 for each adult compared with £224 for England as a whole.

The Low Pay Unit argues that poll tax is the worst of all alternatives to domestic rates. Instead, rates should be made fairer or replaced by a local income tax related to ability to pay.

Mr Chris Pond, director of the unit, said that unless the proposals were modified, the Prime Minister's claim to have compassion for the inner cities would be seen to be hollow.

Plastics sector grows

BY LYNTON McLAIN

COMPANIES representing part of the UK plastics industry have reported continued increases in their profits, sales and labour forces in the past 12 months, the British Plastics Federation says in its latest business trends survey.

As many as three quarters of UK companies supplying raw materials to the plastics industry operated at more than 90 per cent capacity in the year to the end of September.

In the plastic material processing sector, more than 80 per cent of companies surveyed operated their plants at over 70 per cent of capacity.

The plastics group as a whole operated its plants at more than 90 per cent capacity.

Two fifths of the suppliers group increased export sales by more than 5 per cent in the 12 months to the end of September. Seventeen per cent of the group experienced a fall in export sales.

About a third of the plastic material suppliers group increased prices by 10 per cent in the past 12 months to September.

All sectors of the plastic materials group, apart from thermoplastics, showed an increased proportion of companies lifting sales by over 5 per cent.

Business Trends Survey, October 1987, British Plastics Federation, 5 Belgrave Square, London SW1X 8PH.

Guidance call on competition

By David Churchill

THE way competition policy decisions are taken is criticised today in a paper from the David Hume Institute.

Mr Victor Morgan, former professor of economics at the University of Reading, describes the wide discretionary powers of the Trade and Industry Secretary and the Director General of Fair Trading as "disturbing".

He argues that procedures used by both the MMC and the OFT in competition investigations "are very difficult, if not impossible, to challenge in the courts."

Mr Morgan suggests that the Government should publish new guidelines about the use of discretionary powers to make clear what the OFT and Department of Trade can do.

UK Competition Policy 1948-87; David Hume Institute, 10. Hope Street, Charlotte Square, Edinburgh, EH2 4DD; £4.50.

Alice Rawsthorn unravels the history of a traditional industry's changing fortunes

Knitting still part of the Shetland pattern

WHEN the discovery and development of North Sea oil ushered in an era of prosperity to the Shetland Islands in the 1970s, the traditional industries such as knitting, which had been part of island life for centuries, fell into decline.

The policy adopted by the Shetland Islands Council, which governs the cluster of tiny islands to the north of Scotland, of investing its oil revenue in traditional industries has succeeded in breathing new life into the knitting sector.

The benefits of that investment programme are manifest in new overseas markets, increased output and extra jobs. Yet the Shetland knitters have reached a watershed in their development.

The industry is working at capacity. The knitters must decide whether to break with tradition by becoming a more structured industry producing knitwear on machines in factories, or continue working by hand in their homes.

For centuries the Shetland Islanders have subsisted on the three traditional industries of knitting, farming and fishing.

By tradition, Shetland knitwear is plain or lacy. Yet the knitters on tiny Fair Isle have favoured vivid patterns, thought to have been inspired by Spanish sailors shipwrecked off the island in the 16th century after the defeat of the Spanish Armada.

One legend has it that the Spaniards won the hearts of the Fair Isle women; another that irate islanders pushed them off the cliffs to their deaths. Whatever the truth, the shipwrecked sailors have a place in Fair Isle folklore.

Even before the Armada, the islanders had begun to trade their knitting - for food and liquor - with the ships that travelled through Shetland. The islands enjoyed brief bursts of economic prosperity: during the "herring boom" of the early 1900s, and during the Second World War, when there was an influx of servicemen. But knitting continued in its traditional way with knitters working from home and occasionally selling their output through the "merchants" of the islands.

Traditional Fair Isle design reworked for the 1980s

When, in the late 1950s, plain Shetland knitwear suddenly became fashionable in France, the islands were entirely unprepared.

"From time to time a Frenchman would appear on the doorstep with an empty box, and if there was any knitwear lying around you would fill it," as one islander put it.

The French boom flourished for more than a decade. Every hand loom and set of knitting needles on the islands hummed and clicked flat out. Two knitwear factories emerged to exploit the demand from France, but both were owned by Scots or "southerners".

Unknown to the islanders, the knitting industry of Mauritius, far away in the Indian Ocean, was being expanded and equipped to produce "Shetland" knitwear. By the end of the 1960s, cheap garments were pouring out of Mauritius to compete with genuine Shetland knitwear for the French market.

Then came another blow. The French market, to which Shetland sold almost all its knitwear, collapsed.

In the 1970s the Shetland knitting industry fell into the doldrums. Hand looms fell idle; the two factories closed; some companies went out of business. Between 1971 and 1981, the number of people involved with the industry fell from 2,609, out of a population of just over 23,000, to 1,373.

Although the collapse of the French market was the chief cause of decline, the arrival of the multinational oil companies searching for and developing North Sea oil posed a parallel problem. In the late 1970s, the multinationals poured millions of pounds into the islands to construct the Sullom Voe oil terminal and the airports and harbours needed to service their offshore oil platforms.

Hundreds of islanders were involved in the construction programme. Traditional industries such as knitting could not compete with the high wages offered by the oil companies. The industry suffered from a critical shortage of labour.

By 1981, when the construction came to an end and the islanders returned to traditional sources of employment, the Shetland knitting industry was at the nadir of its fortunes.

But North Sea oil had also brought economic prosperity to the islands in the form of revenue from the rates, disturbance allowances and harbour fees paid by the multinationals to the Shetland Islands Council. Having concluded that the oil bonanza would be shortlived, the council decided to use that income to revitalise traditional Shetland industries.

Financial support for the knitwear industry has been twofold. First, the council has provided grants for new knitting machines and building extensions. Second, it established the Shetland Knitwear Trades Association in 1983 to co-ordinate the marketing of Shetland knitwear.

The association has introduced a trade mark to identify genuine Shetland garments and has appointed a quality control officer to ensure that standards are uniform. It also organises visits to trade exhibitions and has set up communal facilities such as a new finishing centre.

As a result, the industry is flourishing. The islands now produce more than half a million garments a year, selling for more than £6m, half of which are sold overseas. Employment within knitting has increased to 2,226 people.

The structure of the industry remains much the same. There are now 36 companies involved with knitwear, but only 16 employ more than 20 knitters. There is only one conventional knitting factory on the islands, owned by Judane, the largest company. All the other companies source from knitters working from home by hand or on hand-frame looms.

There have been new developments. Jamieson's, one of the oldest established knitwear companies, opened the first spinning mill on Shetland three years ago. Previously, the wool from Shetland sheep - which is unusually fine - had been shipped off the islands to be spun. The new mill now spins 30 tonnes of Shetland wool a year, a tenth of the islands' output, and is doubling in size.

The industry is now established on a firm footing, but if it intends to meet the growing demand for its products, it must expand. The simplest solution would be to opt for a more conventional structure of power looms based in factories, rather than hand-frame knitting from home.

The fear that besets many Shetland knitters is that that would jeopardise the heritage on which their industry has been built.

FULL TEXT OF THE CHANCELLOR'S AUTUMN ECONOMIC STATEMENT

Sustained growth forecast for next year

IN his autumn economic statement yesterday, the Chancellor told the House:

With permission, Mr Speaker, I should like to make a statement. I am laying before the House today an Autumn Statement which, as usual, contains first, the Government's outline public expenditure plans for the next three years and the expected outturn for this year; second, proposals for national insurance contributions next year; and, third, the forecast of economic prospects for 1988 required by the 1975 Industry Act. The forecast of course takes into account the likely effect of the recent worldwide falls in equity markets.

I turn first to the expected outturn for the current financial year, 1987-88. The public expenditure planning total now looks likely to amount to £147bn, or around £1bn less than was allowed for in last year's Public Expenditure White Paper. The main reason for this shortfall is higher capital receipts by local authorities and new towns. Total spending on programmes, apart from this, is expected to be broadly in line with plans.

Taking account of miscellaneous items not included in the planning total, the net shortfall on the expenditure side is likely to be slightly in excess of £½bn.

On the receipts side, total tax revenues are likely to exceed the Budget forecast by almost £2½bn. This buoyancy reflects higher than forecast economic growth, greater than expected profitability, and an oil price above the $15 a barrel assumed at the time of the Budget.

At that time, I set a Public Sector Borrowing Requirement for 1987-88 of some £4bn, or 1 per cent of GDP. As a result of the higher tax revenues and lower spending, I now expect the PSBR for the current financial year to be only £1bn, or ¼ per cent of GDP: the third successive year of significant undershoot. Privatisation proceeds have, of course, made an important contribution to this year's low PSBR. But even if there had been no privatisation proceeds at all, it would still be the lowest PSBR for 17 years.

I turn now to the public expenditure plans for the next three years. Since 1982-83 public spending, both including and excluding privatisation proceeds, has been declining as a proportion of national income. There is likely to be a further substantial reduction this year, which will make this the longest sustained fall in public expenditure as a proportion of national income since the early 'fifties.

In July, Cabinet reaffirmed the objective of ensuring that public spending as a share of national income continued to fall and in particular did not exceed the ratios published in the last white paper. The plans that I am about to announce secure that objective.

New planning totals have been set at £156¾bn for 1988-89 and £167bn for 1989-90, increases of £2¾bn and £5bn respectively over the totals previously published. For 1990-91 the planning total has been set at £176bn.

For the later years, I have judged it prudent to set aside larger reserves within the planning totals than I have done previously. The reserves will therefore rise from £3½bn in 1988-89, to £7bn in 1989-90 and £10½bn in 1990-91. The planning totals also incorporate an estimate for privatisation proceeds of £5bn a year, unchanged from the last white paper.

As I have indicated, these plans mean that public spending, excluding privatisation proceeds, will continue to fall as a share of national income. From nearly 47 per cent in 1982-83, that share has come down to around 42 per cent this year, and by 1990-91 will be down to 41¼ per cent, the lowest since 1972-73. The new proportions are lower, for each year, than those published in the last white paper.

This progress has been founded on our success in reining back the rate of growth of public spending. In the 1960s and 1970s public spending grew by around 3 per cent a year in real terms. In our first parliament the real rate of growth averaged 2¼ per cent a year; in our second parliament it was just under 1¾ per cent; and in the succeeding four years, that is the current year plus the three survey years, the real growth of public spending is planned to be around 1¼ per cent a year, well within the prospective growth of the economy as a whole.

But while public spending as a whole is growing more slowly, the substantial reduction in public borrowing this Government has brought about, has, by reducing the burden of debt interest payments, made more room for programme spending. The Government has, therefore, once again been able to provide additional resources for a number of priority services. In each case, the figures I am about to give represent increases over the plans published in the last Public Expenditure White Paper.

First, health. An extra £700m is being provided for the National Health Service in England in 1988-89, and an extra £800m in 1989-90. On top of this the Health Service will benefit from additional resources from the cost improvement programmes and from land sales. All this will enable the NHS to continue to improve services.

Second, law and order. Provision has been made for the substantial increase and acceleration in the prison building programme, which my right hon friend, the Home Secretary, announced to the House in July. This will provide 4,200 extra places by 1993. Provision for local authority spending on the police has also been increased significantly.

Third, education. Provision for local authority current spending has again been increased substantially. In addition, an extra £60m a year has been provided for the improvement of school buildings. Spending on the universities will be increased by £115m in 1988-89 and by £130m in 1989-90. There will also be an additional £45m in 1988-89 and £65m in 1989-90 for science.

Gross provision for housing investment is being increased by nearly £400m next year. This will not only sustain the rising trend of spending on local authority renovation, but will also provide additional resources for housing associations, much of it to be used in conjunction with private finance. Provision for Urban Development Corporations is being increased by £65m next year, to help tackle the problems of the inner cities.

There are also substantial increases in provision for social security spending, which has been increased by £1bn for 1988-89 and £1.9bn for 1989-90. This is partly because the take-up of benefits is likely to be higher than was previously envisaged.

It also takes account of the uprating of benefits announced by my right hon friend, the Secretary of State for Social Services, last week, including the cost of compensating income support claimants for their average contribution to rates. Spending on defence is to be increased by £230m in 1988-89 and £490m in 1989-90.

The additions to planned capital expenditure, for the public sector as a whole, amount to some £1bn in each of the next two years. About half of this is for the nationalised industries, principally for the large-scale investment programmes of the electricity and water industries.

Further information about these and other changes is contained in the printed Autumn Statement which will be available from the Vote Office as soon as I have sat down. Full details, together with information on running costs and manpower, will be given in the Public Expenditure White Paper early in the new year.

I turn now to national insurance contributions. The Government have conducted the usual autumn review of contributions in the light of advice from the Government Actuary on the prospective income and expenditure of the National Insurance Fund, and taking account of the statement on benefits which my right hon friend, the Secretary of State for Social Services, made on 27 October.

The lower earnings limit will be increased next April to £41 a week, in line with the single person's pension, and the upper earnings limit will be raised to £305 a week. The limits for the reduced rate bands will also be increased. The upper limit for the 5 per cent and 7 per cent bands will be raised to £70 a week and £105 a week respectively. The upper limit for the 9 per cent rate for employers will be raised to £155 a week.

The taxpayer's contribution to the National Insurance Fund - the so-called Treasury supplement - will be reduced from 7 per cent to 5 per cent, but this will not require any change in contribution rates. Thus, the main Class 1 contribution rates will once again remain unchanged at 9 per cent for employees and 10.45 per cent for employers.

Finally, I turn to the Industry Act forecast. Growth this year looks to be turning out at 4 per cent, compared with the 3 per cent growth I forecast at the time of the Budget. This is well above the trend of the steady upswing which began in 1981, and faster than any other major economy.

Strong growth in domestic demand has been more than matched by the rapid rise in exports. Manufacturing industry is doing particularly well, with output rising by 5 per cent.

This strong performance has led to a substantial fall in unemployment, which is now more than 400,000 lower than a year ago - the largest annual fall on record. Indeed, unemployment has been falling faster in the UK than in any other major country.

As I forecast at the time of the Budget, inflation in the fourth quarter of this year is likely to be 4 per cent. I also see no need to amend my Budget forecast of a modest current account deficit of some £2bn or about ½ per cent of GDP.

Looking ahead to 1988, the prospect is for a continuation of the steady growth with low inflation that we have now enjoyed for over five years. As I have already indicated, the full forecast I am publishing today takes into account the likely implications of the recent falls in world stock markets insofar as it is possible to do so at this early stage.

This is clearly a time when economic forecasting is a more than usually hazardous business. But what is clear is that the strength of the British economy, and of our public finances, puts us in the best possible position to weather any storm. And that strength will also enable us to play a full part in the international co-operation which is more than ever needed today.

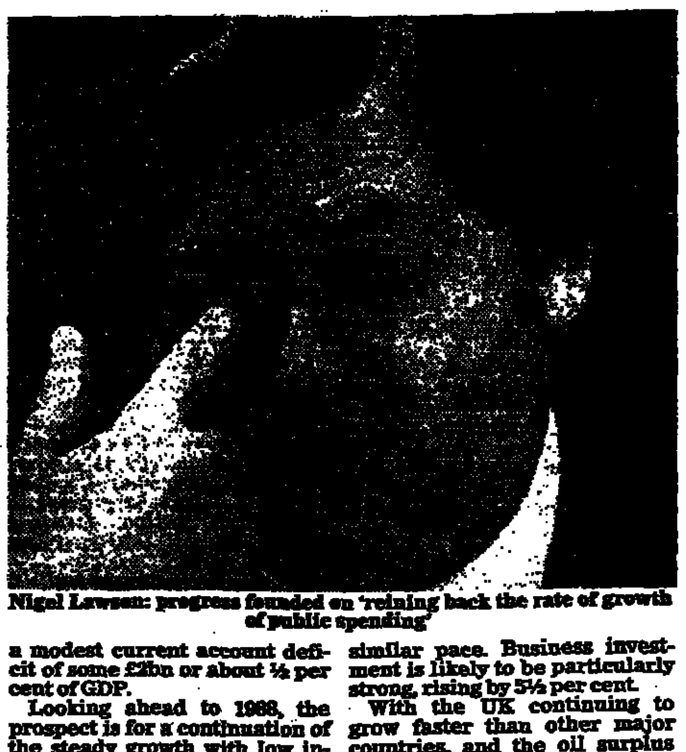
Subject to the uncertainties to which I have just referred, the economy is forecast to grow next year by around 2½ per cent. With North Sea oil output now declining, this implies 3 per cent growth for the non-North Sea economy as a whole. Domestic demand should continue to expand, though at a slightly lower rate than this year, with consumer spending and investment growing at a similar pace. Business investment is likely to be particularly strong, rising by 5½ per cent.

With the UK continuing to grow faster than other major countries, and the oil surplus declining, there is likely to be a further small increase in the current account deficit, to about £3½bn or ¾ per cent of GDP.

Inflation may rise a little next year, reaching 4½ per cent in the fourth quarter, by which time it should be on a downward trend again. The defeat of inflation remains at the heart of the Government's economic strategy.

With continuing healthy growth in 1988, unemployment should continue to fall. The progress and prospects I have described demonstrate once again the soundness of the policies we have followed over the past two parliaments. We will continue to pursue these policies in our third.

Despite the recent deterioration in the world economic climate, the prospect I am able to offer the House is one of further sustained growth and steadily rising living standards, with inflation low and unemployment continuing to fall. We have brought this about by promoting enterprise, sound money and strong public finances. And that is what we will stick to.



Nigel Lawson: progress founded on 'reining back the rate of growth of public spending'

The Lawson tutorial on sound economics

FOLLOWING the ingenious solution to the BP share flotation Chancellor Nigel Lawson is the current hero of the Conservative Party at Westminster. As we awaited his Autumn Statement in the Commons yesterday Mrs Thatcher, his leading admirer, assured us that that "he will rise to the occasion as he always does."

Once again Nigel appeared as Lucky Lawson, bouncing through his statement exuding confidence and not a little satisfaction at his own record at the Treasury. But this time he also adopted a professorial role offering instruction in basic economics to those backward pupils on the Opposition benches.

Professor Lawson seemed to think that John Smith, a new pupil as Labour's shadow Chancellor, had a particularly slow learning curve. Mr Smith had the temerity to check the teacher by suggesting that his cheerful forecast of a continuation of steady growth and low inflation was an exercise in complacency and self-congratulation.

As Mr Smith was a newcomer to the Lawson Academy, the Chancellor showed some degree of latitude. The fact was that Mr Smith had got it wrong in his first response to the statement. There was no point in him trying to interrupt from a sedentary position in order to put the record straight.

Nigel was pained that the Labour spokesman saw fit to doubt his economic forecasts. He advised him that at this early stage in his new career he should not go into the prediction game.

He recalled the example of that other awkward pupil, Roy Hattersley, Mr Smith's predecessor who has now been moved to the post of shadow Home Secretary. Just before the general election Roy had flunked his exam by suggesting that if the Tory Government was re-elected it would impose higher taxes and make deep expenditure cuts.

But the Chancellor's willingness to give tutorials was not limited to the home front. He was just as keen to take on eminent foreign pupils whose economics were rusty or perhaps non-existent.

PARLIAMENTARY SKETCH

It was suggested to him from the Conservative benches that President Reagan should read the Autumn Statement as an example of how Thatcherite policies could reduce the American deficit.

The Chancellor replied that he was sure the President was an assiduous reader of Hansard and would have an opportunity to study the record there.

There was a good-natured clip round the ear for another newcomer, Ken Livingstone, the left-winger who was leader of the Greater London Council. We had assumed that Red Ken's economic reading had been confined to Marx and Engels. But, in a perfectly reasonable question, he showed an equal acquaintance with Keynes when he emphasised the need for an expansion in international economic activity to combat the dangers of a recession.

Sternly the prof told him that if he had been observing the economic scene he would have noticed that Britain had enjoyed an unprecedented period of real growth. The only effect of heavy public borrowing was to increase inflation. This is what had happened under the previous Labour Government.

As a basic textbook on avoiding mistakes he recommended the memoirs of Lord Barnett, formerly Joel Barnett, who was Chief Secretary to the Treasury under the Labour Government. Joel has listed the "jolly wheezes" the Labour team had adopted in pursuit of their policies.

Nigel really did not see much hope that the pupils on the Opposition benches would pass their finals. He feared that they were so out of touch with what is happening on the ground in British industry that they would have great difficulty winning a general election.

Conservative MP Neil Hamilton warned the Chancellor that he was being a little bit smug, hastily adding that this was justified when he was basking in the envy of all the finance ministers of the developed world.

"I liked the rest of my Rt Hon friend's question rather more than the opening," growled the Chancellor menacingly.

There were hoots of laughter from Labour MPs when Tory backbencher Nicholas Winterton called for additional resources for our roads "because they are running into the ground".

The Tory members may be sound on monetarist economics but some of them could do with a refresher course in the English language.

John Hunt

COMINGS AND GOINGS: Norman Tebbit, retiring Conservative Party chairman greets his successor, Peter Brooke, warmly outside Conservative Central Office

Brooke to sit in on Cabinet meetings

BY MICHAEL CASSELL, POLITICAL CORRESPONDENT

MR PETER BROOKE, the new chairman of the Conservative Party, said yesterday he expected to report to the Prime Minister "at a reasonable early date" on his initial strategy for reorganising Central Office and strengthening the party organisation around the country.

Mr Brooke, who retains his post as Paymaster General and whose appointment to the chairmanship was announced on Monday by Mrs Thatcher, disclosed that although the post does not elevate him to the Cabinet, he has been invited by the Prime Minister to sit in on all Cabinet meetings. It was, he said, important to know how policy was evolving at the heart of the Government.

Mr Brooke, who said he was delighted with his appointment, dismissed suggestions that he had been made a caretaker chairman and added: "The Prime Minister simply asked me to be the chairman of the party; that is what I am. We shall see how long it lasts."

The new chairman yesterday met Central Office directors and the staff and told a press conference that he embarked on his task "with an open mind". He did not intend to rush into making decisions but preferred to embark upon "a measured process of absorbing views across the party." He added: "I am a great listener."

Mr Brooke is already in possession of the reorganisation proposals formulated by Mr Norman Tebbit, his predecessor, although he said he had not had the chance to examine them in detail. He would come to his own conclusions "in the fullness of time".

Private carriers may deliver Christmas mail

By Tom Lynch

THE GOVERNMENT is ready to allow private contractors to deliver mail at Christmas if the threatened industrial action by postal workers goes ahead, Mrs Margaret Thatcher, the Prime Minister, said at Question Time yesterday.

Mr John Marshall (C, Hendon South) asked her to reconsider the Post Office monopoly on letters in the light of its "failure" over first-class mail and the threatened strike. The Prime Minister told him: "I share your concern about the Post Office and the threats there may not be official services at Christmas.

Poll tax claim

FAMILIES with an income just above the poverty line will end up paying proportionately four times as much as the highest income groups under the proposed community charge, a new report by the Low Pay Unit says.

Black people would be hardest hit - because they are concentrated in the inner cities, have lower incomes and live in larger households, says the report.

Further city technology colleges to be unveiled

BY TOM LYNCH

THE GOVERNMENT will announce more city technology colleges "quite shortly," Mr Kenneth Baker, the Education Secretary, told the Commons yesterday, adding that a single sponsor had offered £1m to help finance one in north-west England.

Mr Baker confirmed during education questions that he was also considering projects for Tyneside and Teesside, but he accused some Labour local authorities, who oppose the setting up of CTCs, of adopting a "dog in the manger" attitude by creating difficulties over sites.

He rejected charges from Mr Derek Fatchett, a Labour frontbench spokesman, that he was "putting a brave face on his failure to attract industrial support" for the colleges. He said he was making "good progress with discussions with a number of other prospective sponsors" and the new colleges - in addition to four already under way - would be announced "when we have specific sites."

Schools neglect claimed

BY TOM LYNCH

LABOUR MPS claimed yesterday that an Education Department report, published yesterday, put the cost of repairing dilapidated school buildings in the UK as high as £3.15bn.

Mr Frank Doran (Lab, Aberdeen South) asked at Question Time whether "incompetence or embarrassment" had held up publication of the report, which was completed last April, and Mr Jack Straw, the shadow Education Secretary, accused ministers of "appalling neglect" of school buildings.

Mr Bob Dunn, a junior education minister, said the costs of refurbishment would be about £2bn, but added that money had been spent since the report was completed. It had been delayed to give local authorities extra time to provide information.

He joined Tory backbenchers in arguing that responsibility for dilapidation in schools lay partly with the last Labour Government and with Labour local authorities, and advised those who pressed for promises of action to listen to what the Chancellor would have to say in his Autumn Statement.

Thatcher hits back at CBI over uniform business rate

By Tom Lynch

CRITICISMS BY the Confederation of British Industry of the Government's proposal to replace local authority rates with a uniform business rate and a domestic community charge, or poll tax, were dismissed by Mrs Margaret Thatcher, the Prime Minister, in the Commons yesterday.

Mr Andrew Welsh (SNP, Angus East) who asked her at Question Time why, when the reforms were opposed by her political friends and by professional bodies, she was determined to "inflict this tax system on a population that increasingly doesn't want it."

The Prime Minister snapped back that the CBI had not wanted the current rating system either. "What they were complaining about was having to pay such a large proportion of their receipts to local authorities because they wish to have their costs cut."

She said the Government had been active in reducing the amount companies paid to central and local government.

Lawson foresees continuing fall in number of those out of work

BY IVOR OWEN

WITH the non-North Sea oil sector of the economy likely to achieve a growth rate of 3 per cent in 1988 there should be a continuing fall in unemployment as well as a continuing rise in the numbers in work, Mr Nigel Lawson, the Chancellor of the Exchequer, told the Commons yesterday when rejecting demands from the Opposition benches for a bigger public expenditure programme.

His blunt refusal to accept that the uncertainties in the world economy resulting from the recent upheavals in financial markets necessitated an increase in the proportion of gross domestic product devoted to public spending won a succession of plaudits from the government benches for his insistence on maintaining a prudent approach to the management of the nation's finances.

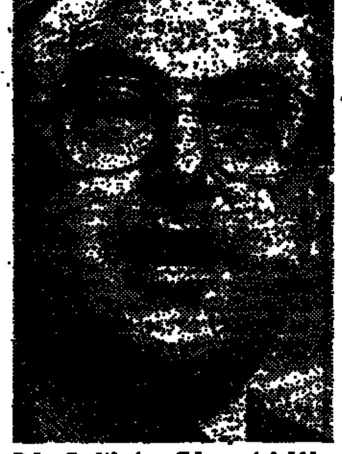
Mr Lawson promised to deal with the international scene in more detail when he speaks tomorrow in a debate on the collapse in the international financial markets but he emphasised the importance of focusing on two main objectives - avoiding both a recession and a resurgence of inflation.

His defence of the decision to impose more stringent financial targets on the electricity industry - with the likelihood of an 8-9 per cent overall average increase in electricity prices next April - was reinforced by Mr Cecil Parkinson, the Energy Secretary, who underlined the industry's need for a massive investment programme.

Mr John Smith, Labour's shadow Chancellor, accused Mr Lawson of resorting to a "confidence trick" by speaking in turn of reducing and increasing public expenditure.

He claimed that because the public expenditure plans had been adjusted to take account of a forecast rise in inflation, the apparent increases in fact involved "no new money".

To Labour cheers, Mr Smith maintained that with the National Health Service needing much more money to cope with more old people and technical improvement, the increased provision announced by the Chancellor was "wholly insufficient" even to maintain vital services.



John Smith: 'confidence trick' by Chancellor

He also contended that the education budget had been "effectively frozen" in real terms, while, despite the Government's claims about the strength of the economy, the social security budget had involved the freezing of child benefit and a £300m cut in income support.

Mr Smith renewed Labour's attack on the Chancellor's failure to cut interest rates, arguing that such action was required to stimulate the economy and contribute to securing the international co-operation needed to combat the threat of a world recession.

He maintained that a "complacent Chancellor" had missed an opportunity at a time when public expenditure ought to have been significantly increased not only because of pressing social needs in the UK but because it was now economically imperative to do so.

Mr Lawson suggested that as Mr Smith was "new at his job" he had failed to appreciate that while public expenditure was being reduced as a proportion of gross domestic product it was still increasing in real terms.

He explained that over the next three years public expenditure would increase in real terms by 1¼ per cent per year instead of the 1 per cent per year previously planned.

Waving aside derisive shouts from the Labour benches, the Chancellor maintained that manufacturing productivity, profitability and efficiency had been "transformed" as a result of the present Government's policies.

"If you do not believe me just listen to the CBI," he said.

Mr Alan Beith, Treasury spokesman for the Liberals, also argued that the public expenditure proposals outlined by the Chancellor did not go far enough to counter the convulsions in the world financial markets or to deal with the developing crisis in the National Health Service, the schools and the universities.

He asked what would happen if the United States and Japan did not take the measures which had been urged upon them, and suggested that the Chancellor was pushing his luck.

Mr Lawson again emphasised that employment and jobs were more closely linked to the non-North Sea oil economy.

He reaffirmed that he would be doing everything possible to impress upon his "opposite numbers" overseas to take the necessary measures, and added: "It is because Britain's economy is so strong that Britain's voice now counts in the world where as it did not under Labour".

Labour attacks plan to protect unionists who defy strike call

BY TOM LYNCH

MR MICHAEL MEACHER, the shadow Employment Secretary, last night led a fierce Labour attack on the Government's plan to protect union members from union discipline if they work in defiance of a secre' 'lot vote to strike.

"For the first time in the history of English statute, it proposes to enshrine in the law the proposal that minorities should be protected in the law if they disregard a decision reached by a majority in a secret ballot," he told MPs during the second reading of the Employment Bill.

He said the provision applied in no other country, and no organisations in this country other than unions would be legally forbidden to enforce their own rules.

Mr Meacher warned that to bring strike ballots into disrepute could have the same effect on return-to-work ballots, which could extend some strikes unnecessarily.

In a sideswipe at the current turmoil within the Social Democratic Party, he said the bill enshrined "the David Owen principle - you play the game until it comes up with results you don't like then you walk off with the ball."

Reeling off a list of those opposed to the provision, including Conservative Trade Unionists and the right-wing Freedom Association, he appealed to Conservative backbenchers "to have the decency and honesty to recognise that this clause is a standing repudiation of democracy." He hoped there would be enough backbench discontent to overturn the clause in the bill's committee stage.

"There is not a golf club in this country - let alone an organisation representing thousands of people - which operates on the principle that you require by law a secret ballot then encourage people not to abide by the outcome.

However, the provision was strongly defended by Mr Norman Fowler, the Employment Secretary, in the face of hostile interventions from the Labour benches, though he acknowledged that the clause faced a heated debate during the bill's committee stage.

He said a union member had obligations to his or her union, employer, family and community. "These obligations can pull individuals in several directions. He should not come to a decision because of fear of disciplinary action by his own union."

Mr Richard Caborn (Sheffield Central) and Mr Eric Heffer (Liverpool Walton) intervened from the Labour back benches to argue that giving an individual the legal right to go against a ballot ran counter to the democratic principle,

GDP rise of 2.5% and low inflation expected next year

THE Treasury issued the following statement after the Chancellor sat down:

GDP is forecast to grow by 2.5 per cent in 1988, following growth of 4 per cent this year. Inflation is expected to remain low and there are good prospects for a further fall in unemployment.

The forecast assumes that fiscal and monetary policies are operated within the framework of the Medium Term Financial Strategy (MTFS). It assumes that remains close to recent levels and that North Sea oil prices will average $18 a barrel. The PSBR is expected to be about £1bn in the current financial year, some £3bn below the figure set in the Budget. The forecast assumes a similar PSBR for 1988-89; the actual PSBR for that year will, as usual, be set in the Budget. The forecast takes account of the recent sharp falls in share prices throughout the world but uncertainty about their effects means that there is an even greater margin of error than usual.

The economy has been growing strongly during the past year. GDP growth in 1987 is likely to be about 4 per cent, with manufacturing output growing by 5 per cent. Domestic demand has continued to grow at much the same rate as in 1986, but with some change in its composition: investment growth has been higher and consumers' expenditure growth lower than in 1986. Non-oil exports have increased strongly. In 1988 GDP is forecast to grow by 2.5 per cent.

Employment has also risen strongly over the past year, with unemployment falling by 400,000, the largest annual decline since the war. There are good prospects for a further fall.

Inflation is expected to remain low. The annual increase in the retail prices index (RPI) is forecast at 4 per cent in the fourth quarter of 1987, as envisaged at the time of the Budget, and is expected to rise temporarily to 4.5 per cent in the fourth quarter of 1988. Unit labour costs have increased very slowly over the past year, thanks to rapid productivity growth, and this pattern is expected to continue in 1988.

World economy

GNP in the main industrial countries is forecast to grow by around 2.5 per cent in 1987 and 2 per cent in 1988. World trade in manufactures has picked up this year, reflecting faster growth of industrial production in the industrial countries, and should grow at around 4 per cent in 1988. Inflation is expected to remain low, although there has inevitably been some rebound from the very low figures produced by last year's drop in the oil price.

The UK current account is now estimated to have been in deficit by £1bn in 1986 following the fall in the oil price. So far in 1987 it has been particularly erratic. A current account deficit of £2.5bn is expected this year (about 0.5 per cent of GDP), in line with the forecast made at Budget time. With the UK expected to continue growing faster than other main industrial countries for a little while, a current account deficit of £3.5bn (about 0.75 per cent of GDP) is forecast for 1988.

The major seven OECD economies are now in their fifth year of expansion. There was some weakening in the second half of 1986 from around 3 per cent a year to just below 2.5 per cent, but recently growth appears to have strengt hened a little.

The weakness in world growth was largely due to the difficulties of adjusting both to the collapse in oil prices in early 1986 and to large changes in exchange rates. Lower oil prices led oil exporters to cut back their imports sharply.

Moreover, with many non-oil commodity prices falling to their lowest post-war levels in real terms, other primary producers also had to restrain their imports severely. As a result exports from the main industrial countries were depressed, and industrial production rose by only 1 per cent in 1986.

Domestic demand in the seven major countries grew strongly in 1986, encouraged by substantial terms of trade gains and lower interest rates, though it slowed in the first half of this year. The slowdown was most marked in the US, reflecting the effects of the dollar's depreciation and some tightening of policy. In Japan and Germany exports have weakened following the appreciation of their currencies and this also produced some weakness in business investment.

Activity in the seven major countries appears to have picked up recently, helped by the greater exchange rate stability achieved by the Louvre Accord and by some strengthening in the demand of developing countries for their exports. Aggregate industrial production is now growing by more than 3 per cent a year.

Consumer price inflation has increased to just over 3 per cent as a result of some recovery in oil and commodity prices from the very low levels reached in 1986. There has been no pick up in the growth rate of earnings and domestic costs.

The current account surpluses of Japan and, to a lesser extent, Germany have now started to decline. In the US trade volumes are responding to the decline in the dollar, but the current account is taking longer to turn round.

Oil prices rose to over $20 per barrel for a short time in the summer before falling back a little to between $17-19 per barrel as OPEC production expanded. Real non-oil commodity prices have recovered somewhat from the extremely low levels reached in the second half of 1986, but they remain well below their historical average. Food prices are particularly weak.

Table 1.1 shows the forecast for activity and inflation in the major seven industrialised countries, and for world trade. The recent sharp falls in securities markets are likely to have a dampening effect on world demand and activity and have contributed to the uncertainties attaching to the forecast.

The forecast assumes that North Sea oil prices average around $18 per barrel until the end of 1988. No further recovery in real non-food commodity prices is forecast and food prices are expected to remain weak.

Equity prices seem to have been a significant factor behind the continued strength of consumer demand in the US. Following recent sharp falls in equity prices some slowdown in US domestic demand is forecast, despite lower interest rates. The recent fiscal package in Japan and the tax cuts planned in Germany should help sustain the growth of their domestic demand.

Industrial production growth in 1988 in the seven major countries should be sustained at around present levels.

World import volumes are likely to rise by about 3.5 per cent in 1987. This is somewhat slower than in 1986 when oil trade was very buoyant following the fall in price. Total world trade in manufactures, on the other hand, has strengthened and may grow by just under 4 per cent.

Growth in world trade should be at around the same rate in 1988. Imports into non-oil developing countries are expected to increase, despite the debt problems facing some of these countries, since the export earnings of primary producers will have been increased by higher commodity prices this year. Opec countries may cease cutting back their imports.

Exchange rates between major currencies have been broadly stable for most of the period since the Louvre meeting of Finance Ministers of the leading industrial countries in February. Sterling has reflected this general stability, particularly against the Deutschemark, moving within a narrow range for several months. The forecast assumes that sterling remains close to recent levels.

UK unit labour costs in the manufacturing sector have probably been rising more slowly than those of other major industrial countries over the past year. This has meant that the large gain in competitiveness in 1986 has been sustained.

The volume of UK manufactured exports, which remained flat in the first half of 1987, has been rising again in recent months and this should continue in 1988 as markets for UK exports continue to expand. Total non-oil exports are likely to increase by about 3.5 per cent in 1988 compared with a projected 7 per cent rise in 1987.

The UK's share of the volume of total world trade in manufactures, which declined during the 1960s and 1970s, has been broadly steady since 1981.

Non-oil imports, which fell sharply in the early part of this year, have since risen again rapidly. The outturn for the year as a whole, however, seems likely to be close to the Budget forecast in spite of the stronger than expected growth of domestic activity. Non-oil imports are forecast to rise by 5 per cent next year compared to 8 per cent in 1987.

Net oil trade is likely to show a surplus of £4bn in 1987 - similar to 1986. Lower North Sea oil output has been offset by higher oil prices and a fall in domestic demand for oil. In 1988 oil production is likely to decline again and be close to the centre of the range published in the Department of Energy's 1987 Brown Book. At the same time, domestic oil demand is likely to rise somewhat in response to rising activity. The oil trade surplus may decline by about £1bn in 1988.

The terms of trade, which fell sharply during 1986 as a result of the fall in oil prices and sterling's depreciation, have recovered somewhat during 1987 as a result of higher oil prices, lower food prices and the rise in the exchange rate in the immediate aftermath of the Louvre Accord. A small improvement in the terms of trade is forecast for 1988.

Invisibles and overseas assets

The substantial surplus on invisibles seems likely to be about the same in 1987 as in 1986. The surplus on services should recover from last year's fall which was attributable partly to a decline in the number of tourists visiting the UK. Net earnings from interest, profits and dividends are expected to be higher despite some apparent narrowing of margins on banking business. These improvements should broadly offset an increase in the deficit on transfers, largely reflecting increased government contributions to the European Community. The invisibles surplus should increase again in 1988 as a result of a higher net surplus from interest, profits and dividends, reflecting in part lower payments abroad by North Sea companies.

In 1986 the value of the stock of UK net overseas assets rose by £37bn, reaching £114bn by the end of the year.

The current account was in deficit by £1.25bn in the third quarter of this year after a surplus of £0.5bn in the first half of the year. The forecast for the year as a whole is for a deficit of £2.5bn, in line with the projection made at the time of the Budget. This is equivalent to about 0.5 per cent of GDP. The forecast for 1988 is for a slightly higher deficit of £3.5bn, reflecting the fall in the oil surplus.

Demand and activity

The UK economy has been growing steadily at around 3 per cent a year on average since early 1981, with only minor fluctuations. Over the year to the first half of 1987 growth has been above this average rate, at close to 4 per cent.

Over that period output growth has been strong in all sectors of the economy other than the North Sea where production has fallen. Output of the service industries rose by 5 per cent between the first halves of 1986 and 1987, manufacturing output by over 4.5 per cent and construction output by 7.5 per cent. The recent rise in construction output has reflected not only growing private sector housebuilding, but also higher commercial building activity. Results of the last DTI investment intentions survey and the CBI quarterly industrial trends enquiry, together with recent figures for construction orders, suggest that commercial and industrial building is likely to be an important source of further growth in construction output over the next year or so.

Consumers' expenditure is now estimated to have increased by nearly 6 per cent in 1986, substantially more than growth in real personal disposable income. The personal savings ratio fell by about 1.5 percentage points between 1985 and 1986, bringing it back to around the average level of the late 1960s and early 1970s. There are at least two major reasons why the savings ratio has fallen in recent years. First, the decline in inflation has reduced the extent to which households need to save simply to make good the erosion of past savings.

Secondly, employers' contributions to pension funds have been falling relative to personal disposable income in recent years as companies have reacted to the surpluses that many funds have been showing: these contributions are treated in the national accounts as part of personal income and saving. This fall is unlikely to have had a large effect on consumers' expenditure and hence will have shown up as a fall in the recorded personal savings ratio.

For 1987 as a whole consumer spending may rise by about 5 per cent, similar to the rise in real personal disposable income. In 1988 consumer spending may grow by about 4 per cent, with some rise in the savings ratio.

The housing market remains very buoyant. Although private housing starts have fallen back from their high first quarter levels, for the first eight months of 1987 as a whole they were 7 per cent higher than the year before, while private completions were 8.5 per cent higher. With investment in improvements rising fast, private housing investment in 1987 as a whole may record an increase only a little below the 12 per cent rise seen in 1986. Housing investment is expected to rise further in 1988.

Company incomes and expenditure

The rate of return of non-North Sea industrial and commercial companies (ICCs) rose sharply again last year, and was back almost to the level recorded in 1973, while the rate of return of manufacturing companies was more than 3.5 times the level recorded in 1981. The sharp fall in North Sea companies' profits brought about a reduction in the net real rate of return earned by all ICCs in 1986 to some 10 per cent. But North Sea profitability appears to have improved this year as a result of the partial recovery in the oil price while the rate of return of non-North Sea companies has continued to rise, helped by strong growth in productivity.

Non-North Sea business investment has recovered strongly in the first half of 1987. This follows a period of weakness in 1986, caused by bringing forward of capital spending into 1985 ahead of the final stage of the changes in capital allowances announced in the 1984 Budget. Manufacturing investment, including assets leased from finance lessors, rose some 7 per cent between the second half of 1986 and the first half of 1987. The projections of the DTI's June investment intentions survey for 1987 (4 per cent growth in manufacturing investment and 8 per cent growth in investment on average in all industries covered) now seem likely to be exceeded. The recent performance of output and profitability suggests faster growth of manufacturing investment next year. North Sea investment seems likely to fall again this year, to less than two thirds of the 1984 level, but may change little further next year.

Stocks fell in the first half of 1987. Given the sharp rise in sales, there may have been some involuntary element in the fall in manufacturing stocks. The full effect of the abolition of stock relief in the 1984 Budget may now have largely fed through. Thus while stock output ratios are expected to fall further over the second half of 1987 and in 1988, the absolute level of stocks could rise. Stockbuilding is forecast to remain on a modest scale compared with many years in the 1970s.

Growth in 1987 is expected to be around 4 per cent, but in 1988 to fall back to a little below the average rate recorded since 1981. (See Table 1.4.) The slower growth reflects a fall in North Sea oil production and therefore net oil exports, a smaller contribution from non-oil exports next year and some reduction in the growth of domestic demand. Growth in 1987 cannot yet, however, be fully explained in terms of expenditure because of the large discrepancy between the expenditure estimate of GDP and the average estimate in the first half of 1987.

North Sea output fell by some 2 per cent between the first halves of 1986 and 1987 and is expected to decline further in 1988. In 1988 declining output in the North Sea may reduce GDP growth by a little over half a percentage point, rather more than in 1987. Manufacturing output is forecast to rise faster than total non-North Sea GDP in both 1987 and 1988.

Inflation

As forecast at the time of the Budget, the annual rate of inflation as measured by the RPI rose slightly during the summer, reflecting the profile of mortgage rates and petrol prices in 1986. (The national accounts measure of consumer prices has been showing a markedly lower rate of inflation than the RPI: it rose by under 2.5 per cent over the year to the second quarter of 1987.) It is likely to average 4 per cent in the fourth quarter of 1987, in line with the Budget forecast. Producer output price inflation has been a little higher this year than forecast at Budget time, and the rate of increase of costs of materials and fuel has been rather faster than expected.

The underlying annual rate of increase in average earnings has risen slightly from 7.5 per cent at the start of the year to 7.75 per cent in recent months. This rise is more than accounted for by increased overtime payments. Adjusted for changes in overtime hours the underlying growth in average earnings has actually fallen over the last year, reflecting lower pay settlements since the second half of 1986. However, there are signs that this downward trend in pay settlements has to some extent been reversed over recent months.

Growth in unit labour costs has been kept down by the rapid growth of productivity and by relatively slow growth in non-wage labour costs. Indeed, unit labour costs in manufacturing may have hardly risen at all between 1986 and 1987. For the first time since 1983, unit labour costs in man ufacturing in the other major industrial countries have on average risen faster than in the UK.

The very low growth in costs over the last two years has not been fully reflected in producer output prices. With the benefit of substantial gains in competitiveness relative to producers overseas and fast growth in demand, UK manufacturing industry has experienced large increases in profit margins. Profit margins may continue to rise, if a little more slowly than in recent years. Thus in spite of slightly faster growth in total unit costs, producer output prices are forecast to rise next year by about the same amount as this year and last. (See Table 1.5.)

Retail price inflation is expected to fall below 4 per cent by the end of the fourth quarter of 1987, but there is likely to be a temporary rise after the first quarter of 1988. This reflects the conventional assumption of a full revalorisation of specific duties in the 1988 Budget, compared with the standstill in the 1987 Budget; and the need for higher increases in nationalised industry prices in 1988 after the fall in real terms this year in order to improve profitability and help finance investment. The forecast is for the RPI to increase by 4.5 per cent over the year to the fourth quarter of 1988.

The GDP deflator measures the price of domestic value added - principally unit labour

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Table 1.1 World economy

	Per cent changes on a year earlier	Forecasts	
	1986	1987	1988
Major seven countries[1]:			
Real GNP	2¾	2½	2
Real domestic demand	3¾	2¾	2
Industrial production	1	3	3½
Consumer prices	2	2¾	2¾
World trade, at constant prices			
Total imports	4½	3½	3½
Total trade in manufactures[2]	2	3¾	4

[1] US, Japan, Germany, France, UK, Italy and Canada.
[2] Excluding trade of centrally planned economies.

Table 1.3 Current account

	£ billion				
	Non oil goods		Oil	Invisibles	Current balance
	Manufactures	Other			
1986	−5½	−7	4	7½	−1
1987 Partly forecast	−7½	−6½	4	7½	−2½
1988 Forecast	−9	−6	3	8½	−3½

Table 1.4 Domestic demand and GDP

	Per cent changes on a year earlier	Forecasts	
	1986	1987	1988
Domestic demand	4	4	3½
Exports of goods and services[1]	3 (3½)	5½ (6½)	2 (3)
Imports of goods and services[1]	6 (5½)	6½ (7)	5 (4½)
Domestic production: GDP[1,2]	3 (3)	4 (4½)	2½ (3)
Manufacturing production	1	5	3½

[1] Non-oil shown in brackets. [2] Average measure.

Table 1.8 Output per head of the employed labour force

	Annual averages, per cent change		
	1964–73	1973–79	1979–87
Manufacturing	3¾	¾	4
Non-manufacturing[1]	3	½	1½
Whole economy	2¾	1	2
Non-North Sea economy	2¾	½	1¾

[1] Excludes public services and North Sea oil and gas extraction.

Table 1.11 Public sector borrowing

	£ billion		
	1986–87	1987–88	
	Outturn	Budget Forecast	Latest Forecast
General government expenditure	165·1	173·5	172·8
General government receipts	160·3	168·8	171·1
General government borrowing requirement	4·9	4·7	1·7
Public corporations' market and overseas borrowing	−1·5	−0·8	−0·7
PSBR	3·4	3·9	1·0
PSBR as per cent of GDP	1	1	¼
Memorandum item:			
PSBR excluding privatisation proceeds	7·8	8·9	6·0
As per cent of GDP	2	2¼	1½

Table 1.13 Constant price forecasts of expenditure, imports and gross domestic product

£ billion at 1980 prices, seasonally adjusted

	Consumers' expenditure	General government consumption	Total fixed investment	Exports of goods and services	Change in stocks	Total final expenditure	*Less* Imports of goods and services	*Less* Adjustment to factor cost	*Plus* Statistical adjustment	Gross domestic product at factor cost[1]	GDP index 1980=100
1982	138·4	49·6	39·5	63·1	−1·0	289·7	59·2	30·6	0·9	200·8	100·5
1983	144·0	50·6	41·6	64·4	0·7	301·2	62·7	31·6	0·5	207·4	103·9
1984	147·1	51·0	45·0	68·9	0·3	312·2	68·8	32·8	2·0	212·7	106·5
1985	152·5	50·9	46·4	72·8	0·6	323·3	70·7	33·9	1·7	220·4	110·4
1986	161·3	51·4	46·5	75·1	0·7	335·0	75·1	35·4	2·7	227·1	113·8
1987	169·0	51·6	49·0	79·2	0·2	348·9	80·0	37·1	4·4	236·3	118·3
1988	176·0	51·9	51·2	80·9	0·8	360·7	84·1	38·4	4·5	242·7	121·6
1986 H1	79·6	25·7	22·9	36·6	0·4	165·2	35·9	17·4	0·8	112·7	112·9
H2	81·6	25·7	23·7	38·5	0·3	169·8	39·2	18·0	1·9	114·5	114·7
1987 H1	83·0	25·6	23·9	39·0	−0·3	171·3	38·3	18·3	2·2	116·9	117·1
H2	86·1	25·9	25·1	40·1	0·4	177·7	41·7	18·8	2·2	119·4	119·6
1988 H1	87·3	25·9	25·3	40·1	0·3	179·0	41·7	19·1	2·2	120·5	120·7
H2	88·7	25·9	25·9	40·8	0·4	181·7	42·4	19·3	2·2	122·2	122·4
Per cent changes											
1985 to 1986	6	1	½	3	—	3½	6	4½	—	3	3
1986 to 1987	5	½	5½	5½	—	4	6½	4½	—	4	4
1987 to 1988	4	½	4½	2	—	3½	5	3½	—	2½	2½

[1] *The average measure of gross domestic product—the preferred measure of economic activity—grew by some 3½ per cent between the first halves of 1986 and 1987. The output-based measure, the most reliable indicator of short period GDP movements, similarly suggests growth of around 4 per cent.*

Timing and other measurement difficulties in the national accounts make it difficult to relate directly the three measures of GDP; it seems appropriate to discount the lower growth rate currently shown by the expenditure measure of GDP.

Table 1.2 Visible trade

	Per cent changes on previous year					
	All goods			Goods less oil		
	Export volume	Import volume	Terms of trade*	Export volume	Import volume	Terms of trade*
1986	3½	6½	−5½	4	5½	−1
1987 Partly forecast	5½	7	1	7	8	1
1988 Forecast	2½	5½	1	3½	5	1

* The ratio of UK export average values to import average values.

Table 1.5 Costs in manufacturing

	Per cent changes on a year earlier			
	Unit labour costs	Cost of materials and fuel[1]	Estimated total unit costs[2]	Output prices[1]
1985	3½	4	4	6½
1986	4	−11	−½	4½
1987 Partly forecast	½	5½	1½	4½
1988 Forecast	1½	2	2	4½

[1] Producer prices excluding food, drink and tobacco industries. [2] Including costs of bought in services.

Table 1.6 Retail prices index

	Weight in 1987	Per cent changes on a year earlier	Forecasts	
		1986 Q4	1987 Q4	1988 Q4
Food	16½	3½	3½	3
Nationalised industries	6	3½	2½	6½
Housing	15	7	7½	7
Other	62½	2½	3½	4½
Total	100	3½	4	4½

Table 1.7 Employment

	Thousands, change in GB seasonally adjusted				
	Employees in employment		Self-employed	HM Forces	Employed labour force
	Male	Female			
June 1984 to June 1985	+82	+191	+115	0	+387
June 1985 to June 1986	−56	+151	+17	−4	+108
June 1986 to June 1987	+72	+200	+102*	−3	+372

* Figures for self-employment over the last year are a projection based on self-employment growth over the previous five years.

Table 1.9 General government expenditure

	£ billion		
	1986–87	1987–88	
	Outturn	Budget Forecast	Latest Forecast
Public expenditure planning total	139·4	148·6	147·6
Interest payments	17·4	17·9	17·8
Less public corporations' market and overseas borrowing	−1·5	−0·8	−0·7
Other adjustments	6·8	6·2	6·7
General government expenditure	165·1	173·5	172·8
of which			
Privatisation proceeds	−4·4	−5·0	−5·0

Table 1.10 General government receipts

	£ billion		
	1986–87	1987–88	
	Outturn	Budget Forecast	Latest Forecast
Taxes on income, expenditure and capital	119·6	127·8	130·1
National insurance and other contributions	26·7	28·5	28·9
Interest and other receipts	13·4	12·6	12·3
Accruals adjustment	0·5	0·0	−0·2
Total receipts	160·3	168·8	171·1
of which			
North Sea revenues	4·8	3·9	4·5

Table 1.12 Economic prospects: summary

	Forecast		Average errors from past forecasts[1]
	1986 to 1987	1987 to 1988	
	per cent changes		percentage points
Output and expenditure at constant 1980 prices			
Domestic demand	4	3½	1
of which:			
Consumers' expenditure	5	4	1½
General government consumption	½	½	1
Fixed investment	5½	4½	2¼
Change in stockbuilding (as per cent of level of GDP)	0	0	½
Exports of goods and services	5½	2	2¼
Imports of goods and services	6½	5	2¾
Gross domestic product: total	4	2½	¾
manufacturing	5	3½	2¼
Inflation			
Retail prices index	per cent changes		
1986 Q4 to 1987 Q4	4		¼
1987 Q4 to 1988 Q4	4½		2
Deflator for GDP at market prices	per cent changes on a year earlier		
Financial year 1987–88	4½		1
Financial year 1988–89	4½		2
Money GDP at market prices	£ billion[2]		
Financial year 1987–88	418 (8½)		1
Financial year 1988–89	448 (7½)		1½
Balance of payments on current account			
1987	−2½		1½
1988	−3½		3

[1] The errors relate to the average differences (on either side of the central figure) between forecast and outturn; the errors given for constant price output and expenditure are relevant to the forecast for next calendar or financial year. The method of calculating these errors has been explained in earlier publications and Government forecasts (see Economic Progress Report June 1981). The calculations of average errors are based on forecasts made between 1975 and 1985.
[2] Per cent change on previous financial year in brackets; average error shown relates to the forecast of the percentage change.

Public spending set at £156.8bn for 1988-89

After the Chancellor sat down the Treasury made the following statement.

Public expenditure will continue to fall as a proportion of the nation's income over the next three years. Excluding privatisation proceeds, general government expenditure is expected to fall sharply as a percentage of GDP from 44 per cent in 1986-87 to 42.5 per cent in 1987-88 and then gradually to 41.25 per cent in 1990-91, the lowest it has been since the early 1970s. The new ratios are lower in each year than those envisaged in the last public expenditure White Paper (Cm 56).

The public expenditure planning totals have been set at £156.8bn for 1988-89 and £167.1bn for 1989-90, increases of £2.6bn and £5.6bn over those published in Cm 56. A planning total of £176.1bn has been set for 1990-91.

In real terms, the average growth in general government expenditure excluding privatisation proceeds in the four years from 1986-87 to 1990-91 is expected to be 1.25 per cent a year.

This compares with growth averaging almost 3 per cent in the decade up to 1978-79, around 2.25 per cent in the four years from 1978-79 to 1982-83 and around 1.75 per cent in the four years from 1982-83 to 1986-87.

The new plans include increased provision for priority services such as health, law and order, defence, and education. Extra provision of some £1bn has also been made for capital spending in each year; this includes large increases for the nationalised industries and for housing, education, and inner cities. The plans include substantial uplifts for local authority current and social security expenditure. They also provide for larger uncommitted Reserves in the two later years. Full details of the spending plans will be published in the forthcoming 1988 public expenditure White Paper.

The trends of public spending as a percentage of GDP and in real terms are summarised in Tables 2.1 and 2.2.

1987-88: outturn

The latest forecast of the planning total in the current year, 1987-88, is £147.6bn. This is £1bn lower than was planned and published in Cm 56. The reduction can be attributed to increases in the capital receipts of local authorities and new towns.

Changes to plans

Table 2.3 sets out the revised spending plans and the changes since Cm 56 for each departmental programme. Tables 2.5, 2.6 and 2.7 show a breakdown of these totals by three spending authorities: central government, local authorities, and public corporations (including nationalised industries). The following paragraphs briefly report the main changes.

Defence: Additions to provision have been made of £230m in 1988-89 and £490m in 1989-90. Provision in 1990-91 is £600m higher than in 1989-90. The increase over plan in the current year is a result of the carry forward of capital underspending from 1986-87 under the end-year flexibility scheme.

Foreign and Commonwealth Office (Diplomatic Wing): A net reduction on this programme has been made possible largely by a fall in the estimated cost of the FCO's overseas operations resulting from movements in overseas prices and exchange rates. The revised provision includes additions for the current expenditure of the BBC External Services for the next three year period.

Overseas Development Administration: The increase to the net overseas aid programme provides for growth in real terms over the next three years.

European Communities: The latest projection of the UK's net payments to European Community Institutions assumes a continuance of the 1.4 per cent VAT ceiling. The profile shows a drop in payments in 1988-89 followed by an increase in 1989-90, mainly because the UK is expected to benefit from an exceptionally large abatement (£1,750m) during 1988. The changes to the projections since the white paper result mainly from a fall in our projected share of agricultural receipts and an increase in our share of gross contributions, reflecting higher customs duties and levies and a revised forecast of the UK's VAT base.

Ministry of Agriculture, Fisheries and Food: Small additions to provision have been made in a number of areas, in particular on the farming and rural enterprise initiative (announced in February). These are more than offset by a reduction in the estimated cost of market support under the Common Agricultural Policy including savings arising from policy reform. Most of the market support expenditure is ultimately financed from the Community Budget receipts which are reflected in the UK's net contribution to the EC. Total provision for spending on agriculture including expenditure by the Intervention Board for Agricultural Produce, the Scottish, Welsh and Northern Irish agriculture departments, and the Forestry Commission is below the Cm 56 levels by £170m and £140m respectively in 1988-89 and 1989-90.

Trade and Industry: Increased provision is made for launch aid for the new Airbus (as announced in July), for revised estimates of the costs of commitments under demand determined schemes of industrial assistance, and for the expansion of some advisory services.

Export Credits Guarantee Department: The changes to the plans reflect the latest estimates of the cost of interest support and tender to contract cover.

Energy: The departmental totals include both departmental expenditure and the external finance for the energy industries (which is negative in some years). There are increases to reflect growth in essential safety related work by the Atomic Energy Authority on decommissioning and nuclear waste management and the costs of moving to new departmental accommodation, and changes in estimates of payments under the redundant mineworkers' payments scheme. There are also increases in the external financing requirements of the electricity industry in England and Wales.

Employment: There are a number of broadly balancing increases and reductions within the new totals. There is increased provision for support for tourism, Jobclubs, the Health and Safety Executive, adult training (as a result of the employment measures announced in January) and the Youth Training Scheme (reflecting the withdrawal of income support for school leavers). The Job Release Scheme and New Workers Scheme will be closed for applications from January 31 1988.

Transport: Additional provision has been made for expenditure on national roads, particularly for a programme of bridge maintenance, and for gross capital expenditure by local authorities.

Housing: Provision for gross capital expenditure on housing has been increased by £380m in 1988-89 and £280m in 1989-90. This will enable the Housing Corporation to provide extra aid for housing associations and will make available resources for the setting up of Housing Action Trusts. It will also provide for increases in planned spending by local authorities and new towns. The continuing success of the Government's right to buy policy is reflected in further significant increases in the forecast level of capital receipts.

Other environmental services: Substantially increased expenditure on Urban Development Corporations and increases for countryside, recreation, heritage and environmental research programmes are offset by higher new town receipts. Extra local authority receipts have also made possible an increase in gross capital provision for local environmental services. In addition £20m of extra funds has been provided to the National Heritage Memorial Fund in 1987-88.

Home Office: Provision in all years has been increased to finance an acceleration and expansion of the prison building programme. Provision for local authority expenditure, principally on the police, has also been increased substantially.

Legal departments: Provision has been increased mainly to cover the cost of a larger court building programme and a "permanent payments on account" scheme for lawyers; the plans also cover the increased costs of the Crown Prosecution Service and the cost of setting up the Serious Fraud Office.

Education and Science: Additional provision has been made for the implementation of the Government's education reforms, including the introduction of the national curriculum; and for universities, mainly for a programme of restructuring. The science budget is being increased. Provision has also been increased substantially for current and capital expenditure by local authorities.

Arts and Libraries: Additions have been made for incentive funding of arts and libraries and for increased estimates of the cost of the British Library new building project. Increased provision has also been made for local authority expenditure on museums, galleries and libraries.

Health: Additional provision has been made for the hospital and community health services. Health authorities will have available extra cash released by land sales and by their continuing cost improvement programmes. The latter are expected to yield £150m in 1987-88 (on top of the £500m achieved prior to that). In addition, health authorities will have available extra cash generated by a new programme for increasing hospital income from non-NHS sources. Provision for the Family Practitioner Services allows for higher forecast demand and for further service improvements. There is also increased provision for local authority spending on personal social services.

Social Security: The new plans reflect the latest estimates of benefit expenditure over the survey period. They reflect the decision announced last May to include within income-related benefits the average cost to claimants of paying 20 per cent of rates.

The provision also takes account of the statement on benefits by the Secretary of State on October 27 1987, and allows for further upratings of benefits in April 1989 and April 1990. For the purpose of these estimates, the number of unemployed (Great Britain, excluding school-leavers etc) is assumed to average 2.7m in 1987-88 and 2.6m in 1988-89, 1989-90 and 1990-91.

The RPI is assumed to rise by 4.5 per cent in the year to September 1988 (for the upratings in April 1989) and by 3.25 per cent in the year to September 1989 (for the upratings in April 1990).

Scotland, Wales and Northern Ireland: The net changes in

continued on facing page

Table 2.3 Public expenditure[1,2]

£ million

	Latest estimates of outturn			New plans			Change from January 1987 White Paper[3]		
	1986–87 outturn	1987–88 estimated outturn	Change 1986–87 to 1987–88	1988–89 plans	1989–90 plans	1990–91 plans	1987–88	1988–89	1989–90
Ministry of Defence	18 149	18 950	800	19 210	19 960	20 560	170	230	490
FCO—Diplomatic wing	631	700	70	720	740	760	0	−10	−10
FCO—Overseas Development Administration	1 294	1 330	30	1 430	1 500	1 550	−30	30	60
European Communities	1 088	1 400	310	800	1 470	1 320	520	350	400
Ministry of Agriculture, Fisheries and Food[4]	1 865	2 130	270	2 210	2 330	2 500	−120	−180	−160
Department of Trade and Industry	2 097	920	−1 170	1 230	1 190	1 140	−200	260	220
Export Credits Guarantee Department	259	160	−100	130	140	120	0	20	90
Department of Energy	−191	280	470	120	−190	−420	360	160	50
Department of Employment	3 877	4 100	230	4 250	4 300	4 360	80	50	0
Department of Transport	4 709	4 800	90	5 150	5 110	5 210	−340	60	−30
DOE—Housing	2 605	2 520	−80	3 020	3 000	3 040	−700	−10	−100
DOE—Other environmental services	3 915	4 020	110	3 820	4 000	4 110	190	−60	90
Home Office	5 161	5 790	630	6 060	6 310	6 480	260	360	450
Legal departments[5]	673	880	200	970	1 040	1 100	0	30	30
Department of Education and Science	15 691	17 170	1 480	17 960	18 630	19 160	580	630	800
Office of Arts and Libraries	817	890	80	900	940	970	70	50	60
DHSS—Health and personal social services	17 918	19 560	1 640	20 680	21 670	22 650	430	810	920
DHSS—Social security	44 442	46 400	2 000	48 500	51 200	53 700	400	1 000	1 900
Scotland	7 736	8 220	480	8 510	8 600	8 770	260	400	380
Wales	3 057	3 310	260	3 450	3 550	3 660	120	150	160
Northern Ireland	4 638	4 890	250	5 130	5 310	5 470	20	90	110
Chancellor's departments	2 067	2 310	240	2 460	2 600	2 690	100	160	180
Other departments	1 318	1 450	130	1 640	1 660	1 730	−90	10	−40
Reserve	0	0	0	3 500	7 000	10 500	−3 500	−2 000	−500
Privatisation proceeds	−4 403	−5 000[6]	−600	−5 000	−5 000	−5 000	0	0	0
Adjustment[7]	0	350	350	0	0	0	350	0	0
Planning total	**139 413**	**147 600**	**8 200**	**156 800**	**167 100**	**176 100**	**−1 000**	**2 600**	**5 600**
General government gross debt interest	17 409	17 800	400	18 000	18 000	18 000	−300	+100	−800
Other national accounts adjustments	8 298	7 400	−900	8 000	8 000	8 000	+500	+600	+600
General government expenditure	**165 120**	**172 800**	**7 700**	**183 000**	**193 200**	**202 100**	**−800**	**3 300**	**5 400**

[1] The rounding and other conventions used in this table and Tables 2.5, 2.6 and 2.7 are as follows: plan figures are rounded to the nearest £10 million, except for social security (in this table and Table 2.5), the planning and spending authority totals (except public corporations) and general government expenditure which are rounded to the nearest £100 million. In the case of general government expenditure, this does not imply accuracy to this degree. Debt interest and other national accounts adjustments for future years are rounded to the nearest £ billion. Outturn figures for 1987–88 have also been rounded to reflect their provisional nature. The changes and totals are based on the unrounded figures. They may differ therefore from the changes and sums of the rounded figures.

[2] In this and Tables 2.5, 2.6 and 2.7 some figures may be subject to detailed technical amendment before publication of the 1988 public expenditure White Paper.

[3] Plans as set out in the last public expenditure White Paper (Cm 56) adjusted for minor changes of classification and allocation.

[4] Includes Intervention Board for Agricultural Produce and Forestry Commission.

[5] Legal departments comprise: the Lord Chancellor's Department, the Northern Ireland Court Service, the Crown Prosecution Service, the Serious Fraud Office and the Crown Office.

[6] This assumes the full proceeds of the first instalment of the BP share offer. If some of the BP shares were purchased by the Issue Department of the Bank of England and were still held by it at the end of the financial year, the effect would be to reduce privatisation proceeds, and increase the planning total, general government expenditure, and the PSBR by the same amount.

[7] An adjustment for the difference between the assessment of the likely outturn for 1987–88 and the sum of the other items shown.

Table 2.2 Public expenditure trends[1]

£ billion

	Planning total		General government expenditure		General government expenditure (excluding privatisation proceeds)	
	Cash	Real terms[2]	Cash	Real terms[2]	Cash	Real terms[2]
1978–79	65·7	127·9	74·8	145·5	74·8	145·5
1979–80	77·6	129·1	89·8	149·4	90·1	150·1
1980–81	92·6	130·1	108·4	152·2	108·8	152·8
1981–82	104·0	133·0	120·5	154·1	121·0	154·7
1982–83	113·5	135·4	132·5	158·1	133·0	158·6
1983–84	120·3	137·2	140·1	159·7	141·2	161·0
1984–85	129·8	141·8	150·1	164·0	152·2	166·3
1985–86	133·7	137·8	158·3	163·0	161·0	165·8
1986–87	139·4	139·4	165·1	165·1	169·5	169·5
1987–88	147·6	141·6	172·8	165·8	177·8	170·6
1988–89	156·8	143·9	183·0	168·0	188·0	172·6
1989–90	167·1	148·2	193·2	171·3	198·2	175·8
1990–91	176·1	151·6	202·1	174·0	207·1	178·3

[1] Estimated outturn for 1987–88; plans for 1988–89 onwards.

[2] Cash figures adjusted to 1986–87 price levels by excluding the effect of general inflation as measured by the GDP deflator at market prices. The GDP deflator is assumed to increase by some 4½ per cent in 1987–88, and by 4½, 3½ and 3 per cent respectively in the years 1988–89 to 1990–91.

Table 2.1 Public expenditure as percentage of GDP

	General government expenditure	General government expenditure (excluding privatisation proceeds)
1978–79	43½	43½
1979–80	43¼	43½
1980–81	45¾	46
1981–82	46¼	46½
1982–83	46¾	46¾
1983–84	45½	46
1984–85	45½	46¼
1985–86	43¾	44½
1986–87	42¾	44
1987–88	41¼	42½
1988–89	40¾	42
1989–90	40¾	41¾
1990–91	40½	41¼

Table 2.4
External financing limits for the nationalised industries 1988–89

	£ million[1]
British Coal	670
Electricity (England and Wales)	−1 040
North of Scotland Hydro-Electric Board	−2
South of Scotland Electricity Board	131
British Steel Corporation	−100
Post Office	−97
National Girobank	−8
British Railways Board	753
British Waterways Board	47
Scottish Transport Group	2
British Shipbuilders	80
Civil Aviation Authority	21
Water (England and Wales)	10
London Regional Transport	221
Total	**687**

[1] Figures are shown rounded to the nearest £1 million.

Table 2.5 Central government spending[1]

£ million

	Latest estimates of outturn			New plans			Change from January 1987 White Paper		
	1986–87 outturn	1987–88 estimated outturn	Change 1986–87 to 1987–88	1988–89 plans	1989–90 plans	1990–91 plans	1987–88	1988–89	1989–90
Ministry of Defence	18 161	18 950	790	19 210	19 960	20 560	170	230	490
FCO—Diplomatic wing	631	700	70	720	740	760	0	−10	−10
FCO—Overseas Development Administration	1 270	1 310	40	1 400	1 470	1 520	−10	30	60
European Communities	1 088	1 400	310	800	1 470	1 320	520	350	400
Ministry of Agriculture, Fisheries and Food	1 667	1 940	280	1 990	2 110	2 280	−120	−190	−180
Department of Trade and Industry	1 844	1 050	−790	1 250	1 250	1 190	80	280	280
Export Credits Guarantee Department	259	160	−100	130	140	120	0	20	90
Department of Energy	907	590	−320	510	460	430	90	40	30
Department of Employment	3 757	3 980	220	4 110	4 170	4 210	80	40	−10
Department of Transport	1 260	1 410	150	1 460	1 490	1 530	40	30	40
DOE—Housing	1 313	1 370	50	1 320	1 380	1 460	10	−10	40
DOE—Other environmental services	363	430	70	440	450	450	30	30	20
Home Office	906	1 030	130	1 120	1 200	1 210	10	80	110
Legal departments	673	880	200	970	1 040	1 100	0	30	30
Department of Education and Science	2 459	2 700	240	2 930	3 080	3 150	70	210	280
Office of Arts and Libraries	337	370	30	400	420	440	10	40	50
DHSS—Health and personal social services	15 154	16 520	1 360	17 550	18 450	19 330	330	700	790
DHSS—Social security	40 973	42 700	1 700	44 500	47 000	49 200	300	600	1 400
Scotland	3 310	3 500	190	3 600	3 780	3 920	70	50	120
Wales	1 453	1 560	100	1 680	1 720	1 780	40	100	90
Northern Ireland	3 593	3 800	200	4 010	4 170	4 300	10	80	90
Chancellor's departments	2 074	2 320	240	2 470	2 600	2 700	100	160	180
Other departments	1 318	1 450	130	1 640	1 660	1 730	−90	10	−40
Total	**104 768**	**110 100**	**5 300**	**114 200**	**120 200**	**124 700**	**1 700**	**2 900**	**4 400**

[1] See footnotes to Table 2.3.

Table 2.6 Local authority spending[1]

£ million

	Latest estimates of outturn			New plans			Change from January 1987 White Paper		
	1986–87 outturn	1987–88 estimated outturn	Change 1986–87 to 1987–88	1988–89 plans	1989–90 plans	1990–91 plans	1987–88	1988–89	1989–90
Ministry of Agriculture, Fisheries and Food	186	170	−20	200	200	210	−10	10	20
Department of Trade and Industry	79	90	10	90	90	100	10	10	10
Department of Employment	115	130	10	130	140	140	10	10	10
Department of Transport	2 483	2 470	−10	2 650	2 720	2 800	−200	−60	−40
DOE—Housing	1 274	1 140	−130	1 690	1 540	1 460	−660	60	−150
DOE—Other environmental services	3 424	3 660	240	3 370	3 480	3 570	340	20	40
Home Office	4 254	4 760	510	4 940	5 110	5 270	250	280	330
Department of Education and Science	13 232	14 470	1 240	15 030	15 550	16 010	510	410	530
Office of Arts and Libraries	480	520	40	500	510	530	60	10	20
DHSS—Health and personal social services	2 738	3 030	290	3 120	3 230	3 320	100	110	130
DHSS—Social security	3 470	3 790	320	4 010	4 250	4 490	160	430	470
Scotland	3 942	4 330	380	4 510	4 620	4 760	130	170	150
Wales	1 539	1 680	140	1 690	1 730	1 790	80	50	60
Northern Ireland	716	700	−20	740	770	790	0	10	10
Total	**37 932**	**40 900**	**3 000**	**42 700**	**43 900**	**45 200**	**800**	**1 500**	**1 600**
of which:—									
Relevant expenditure[3]	29 396	32 100	2 700	33 200	34 300	35 400	1 200	1 000	1 300
Other current	4 792	5 100	300	5 400	5 600	5 900	100	400	500
Capital	3 743	3 700	0	4 000	4 000	3 900	−500	0	−200

[1] See footnotes to Table 2.3.

[3] Public expenditure relevant for Aggregate Exchequer Grant.

Table 2.7 Public corporations[1,2]

£ million

	Latest estimates of outturn			New plans			Change from January 1987 White Paper		
	1986–87 outturn	1987–88 estimated outturn	Change 1986–87 to 1987–88	1988–89 plans	1989–90 plans	1990–91 plans	1987–88	1988–89	1989–90
FCO—Overseas Development Administration	24	10	−10	30	30	30	−10	0	0
Ministry of Agriculture, Fisheries and Food	13	20	10	20	20	20	0	0	0
Department of Trade and Industry	173	−210	−390	−100	−150	−140	−280	−20	−70
Department of Energy	−1 098	−320	780	−390	640	−850	260	120	20
Department of Transport	966	920	−50	1 040	900	880	−170	80	−20
DOE—Housing	19	10	−10	20	90	120	−50	−60	10
DOE—Other environmental services	128	−80	−200	0	80	90	−180	−100	30
Scotland	484	390	−90	400	200	90	60	170	110
Northern Ireland	329	390	60	380	370	380	0	10	10
Other[4]	77	90	10	90	90	90	0	0	0
Total	**1 115**	**1 230**	**110**	**1 480**	**980**	**710**	**−380**	**200**	**100**
of which:—									
Nationalised industries	387	590	200	690	−30	−390	−100	340	20
Other public corporations	729	640	−90	790	1 010	1 090	−270	−150	70

[1] See footnotes to Table 2.3.

[2] For nationalised industries and most public corporations, the planning total includes their external finance. For nationalised industries' external financing limits for 1988–89, see Table 2.4.

[4] Ministry of Defence, Department of Employment, DHSS, Wales and Chancellor's Departments.

Tax revenue ready reckoner

AFTER the Chancellor's statement, the Treasury issued a series of tables showing the effects of various illustrative tax changes on tax receipts in 1988-89 and 1989-90. The effects of tax changes depend on economic variables, such as prices, earnings and consumer expenditure.

An illustrative rate of inflation of 4 per cent was used to show the effects of indexation and revalorisation in 1988-89. This is in line with the annual rate of increase in the RPI forecast for the fourth quarter of 1987.

The tables show estimates of the direct effects of tax changes. In practice, tax changes will themselves affect economic variables, which in turn will have further effects on tax yields and on the PSBR. The estimated direct effects are not, therefore, the same as the effects on the PSBR. The approach used was explained in the Annex to Chapter 4 of the Financial Statement and Budget Report published in March 1987.

Tables 4.1 to 4.3 show tax allowances, thresholds and bands for 1988-89 after 4 per cent indexation. For income tax, rounding follows the rules laid down in the 1980 Finance Act; for inheritance tax and capital gains tax those laid down in the 1982 Finance Act. Estimates of the revenue effects of these changes are shown in Table 4.4.

Table 4.5 shows estimates of the direct revenue effects of illustrative changes in income tax and corporation tax. For income tax allowances and thresholds, these are changes from an indexed base.

The effects of the illustrative changes can be scaled up or down over a reasonably wide range. However, the extra cost of increasing allowances and, in particular, higher rate thresholds tends to fall as the allowances or thresholds rise. For this reason, effects are given for different percentage changes.

The total cost of a group of income tax allowances changes can be broadly assessed by adding together the revenue effects of each change. However, if allowances are increased substantially and combined with a reduction in basic or higher rates, the effects of the rate reductions will be reduced. In such cases, the cost or yield obtained by adding components from the ready reckoner should be considered only as a general guide.

Table 4.6 shows estimates of the effects of changes in excise duties. The first part shows the extra revenue from the individual duties if they were to be increased by exactly 4 per cent, together with the price increase that would result (after allowing for consequential VAT). The second part shows the revenue yield from changing current levels of duty so that (after VAT) the price of a typical item is changed by the amount shown.

Table 4.7 shows the revenue effects of a 1 percentage point change in the rate of VAT.

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Table 4.1 Income tax

	£ 1987–88	£ 1988–89
Allowances:		
Single and wife's earned income allowance	2425	2525
Married allowance	3795	3955
Additional personal and widow's bereavement allowance	1370	1430
Single age allowance (age 65–79)	2960	3080
Married age allowance (age 65–79)	4675	4865
Single age allowance (age 80 and over)	3070	3200
Married age allowance (age 80 and over)	4845	5045
Aged income limit	9800	10200

Income tax rates	Bands of taxable income £	
Per cent	1987–88	1988–89
27	0–17900	0–18700
40	17901–20400	18701–21300
45	20401–25400	21301–26500
50	25401–33300	26501–34800
55	33301–41200	34801–43100
60	Over 41200	Over 43100

Table 4.2 Inheritance tax

Rate on death	Bands of chargeable value £'000	
Per cent	1987–88	1988–89
Nil	0–90	0-94
30	90–140	94-146
40	140–220	146-229
50	220–330	229-344
60	Over 330	Over 344

Table 4.3 Capital gains tax

	£ 1987–88	£ 1988–89
Annual exempt amount:		
Individuals	6600	6900
Trusts	3300	3450

Table 4.4 Costs of indexation for 1988–89

	£ million 1988–89	£ million 1989–90
Indexation of income tax allowances and thresholds	940	1420
Of which:		
Increases in main personal allowances	770	1120
Increase in the basic rate limit*	110	170
Increases in further higher rate thresholds*	60	130
Indexation of inheritance tax thresholds and bands	25	60
Indexation of capital gains exempt amounts	—	10

** Additional costs after previous changes have been introduced.*

Table 4.7 VAT

	£m cost/yield in 1988–89	£m cost/yield in 1989–90
1% change in rate of VAT[1]	940	1310

[1] Assuming implementation on 1 April 1988.

Table 4.6 Revenue effects of indirect tax changes

	Current level of duty on typical items	4% Revalorisation[1]: Price change inc. VAT[2]	£m yield in[3] 1988–89	£m yield in[3] 1989–90	Changes from present levels of duty: Price change inc. VAT[2]	Actual percentage change in duty	£m cost/yield in[3] 1988–89	£m cost/yield in[3] 1989–90
Beer (pint)	18·6p	0·9p	65	70	1p	4·7	75	85
Wine (70 cl bottle of table wine)[4]	68·6p	3·2p	20	20	5p	6·3	30	35
Spirits (bottle)	£4·73	21·8p	25	30	10p	1·8	15	15
Cigarettes (20 kingsize)[5]	93·4p	3·7p	95	110	1p	1·1	25	30
Petrol (gallon)	88·1p	4·1p	210	240	1p	1·0	55	60
Derv (gallon)[6]	74·5p	3·4p	50	55	1p	1·2	15	15
VED (cars and light vans)	£100·00	£4·00	85	90	£1·00	1·0	20	25

[1] An 'across the board' revalorisation by 4 per cent (including the minor duties not shown above) would yield about £590m in 1988–89 and £655m in 1989–90, and the impact on the RPI would be to raise it by 0·3 per cent.
[2] VAT is payable in addition to the duty except in the case of VED.
[3] Assuming implementation on 1 April 1988.
[4] Revenue effects include all wines.
[5] The duty on cigarettes has ad valorem and specific elements; the percentage change relates only to the specific element, but the price change includes the subsequent increase in ad valorem duty and VAT.
[6] Revenue effects allow for offsetting increase in bus fuel grants.

Table 4.5 Direct effects of illustrative changes in income tax and corporation tax[1]

	£ million 1988–89 cost/yield	£ million 1989–90 cost/yield
Income tax		
Rates		
Change basic rate by 1p[2]	1250	1600
Change all higher rates by 1p	85	165
Personal allowances[3]		
Change single and wife's earned income allowance by £100	295	380
Change married allowance by £100	240	310
Change single age allowance[4] by £100	23	30
Change married age allowance[4] by £100	22	26
Change aged income limit by £200	4	5
Change all main personal allowances by 1 per cent	180	235
Change all main personal allowances by 10 per cent:		
increase (cost)	1775	2325
decrease (yield)	1825	2400
Higher rate thresholds[3]		
Change all higher rate thresholds by 1 per cent:		
increase (cost)	31	55
decrease (yield)	32	60
Change all higher rate thresholds by 10 per cent:		
increase (cost)	280	520
decrease (yield)	365	650
Allowances and thresholds[3]		
Change all main personal allowances and higher rate thresholds by 1 per cent	215	295
Change all main personal allowances and higher rate thresholds by 10 per cent:		
increase (cost)	2050	2825
decrease (yield)	2250	3075
Corporation tax[5]		
Change full rate by 1 percentage point	360	560
Change small companies' rate by 1 percentage point[6]	25	45

[1] The estimated revenue effects of changes in the basic rate of income tax and in the main personal allowances of 10 per cent are rounded to the nearest £25m; other effects over £50m are rounded to the nearest £5m; effects of less than £50m are rounded to the nearest £1m.
[2] Including the effects of the change on receipts of advance corporation tax and on consequent liability to mainstream corporation tax.
[3] Percentage changes are calculated with reference to 1987–88 levels.
[4] Including higher age allowance for those aged 80 or over.
[5] Assessment to corporation tax normally relates to the preceding year. These estimates are, therefore, the changes to revenue that would occur if the changed rates were applied to incomes from 1 April 1987.
[6] These figures ignore any possible associated changes in the imputation system.

GDP increase of 2.5% expected

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costs and profits per unit of output and excludes import prices. The GDP deflator at market prices is forecast to rise by 4.25 per cent in the current financial year, just below the Budget forecast, following an increase of 3 per cent last year. The higher rate of increase this year is more than accounted for by a recovery in North Sea profits following their fall of over 50 per cent in 1986-87. The GDP deflator is now forecast to rise by 4.5 per cent in 1988-89.

Productivity and the labour market

The growth in the employed labour force in Great Britain has been gathering pace over the last year: in the twelve months to June 1987 it is estimated to have risen by 372,000. Since 1983, there has been an increase of over 1,350,000 in the number of jobs. The strong growth in manufacturing and construction output this year has been reflected in particular in a rise in male employees: the 86,000 rise in the six months to June was the largest half yearly rise since the first half of 1973.

Productivity has been growing strongly, with manufacturing productivity now estimated to have risen by 4 per cent a year on average since 1979. Underlying growth in labour productivity in manufacturing industry now appears to be if anything higher than the rate experienced in the 1960s. This has been accompanied recently by a substantial improvement in capital productivity. Non-manufacturing output per man hour has risen by about 2 per cent a year since 1979, and by about 2.5 per cent a year since 1983. Output per head has grown less than this as a result of the large rise in part-time employment.

Since June 1986 seasonally adjusted adult unemployment in the UK has fallen for fifteen months in succession, by some 437,000 in total; the number of unemployed school leavers has also fallen, by some 48,000 over the last year. The greater part of the improved trend in unemployment this year is attri butable to the strong growth of output and employment. The remainder is due to various government measures to provide training or work experience for the unemployed, or to help them to find jobs. The prospects for the UK economy over the next year mean that a further fall in unemployment is likely. The main danger to the chances of further progress in reducing unemployment is of pay settlements being too high.

The sterling exchange rate, as already noted, has been broadly stable over the past eight months, following the conclusion of the Louvre agreement. During that time there has been a substantial inflow into the Reserves amounting to some $16bn.

The year-on-year growth of M0 has been somewhat above the midpoint of its 2 per cent to 6 per cent target range in recent months, in part reflecting earlier falls in interest rates. M0 is expected to continue to grow quite briskly in the immediate future before slowing down again.

Broad money has continued to rise rapidly. This has reflected, at least in part, increased deposits by companies and financial institutions. The strong growth of broad money, which has been evident in recent years, is to a considerable extent the consequence of financial innovation and liberalisation.

The sharp fall in share prices will tighten monetary conditions somewhat. This will to some extent be offset by the recent fall in short term interest rates; and long term rates have also eased. On the balance of evidence, monetary conditions remain firm.

Tables 1.9 to 1.11 show both the Budget projections and latest forecasts for general government expenditure and receipts and public sector borrowing in 1987-88. They show also the 1986-87 outturn. The PSBR in 1986-87 was £3.5bn, £0.75bn lower than estimated in the 1987 FSBR. Lower central government borrowing, more than accounted for by higher than expected tax revenues, was responsible for over half of this downward revision, with the remainder due to lower than expected local authority borrowing.

In the first six months of 1987-88 the PSBR was £1.5bn. Excluding privatisation proceeds, borrowing was about £1.25bn lower than in the first half of 1986-87. The revised forecast for 1987-88 as a whole is a PSBR of £1bn, about £3bn lower than forecast in the FSBR. This is mainly due to higher than expected tax revenues but there is also likely to be a shortfall on the expenditure side.

Table 1.9 shows the relationship between the public expenditure planning total and general government expenditure. The outturn for the public expenditure planning total is expected to be £1bn lower than was forecast in the FSBR. This is largely accounted for by higher capital receipts of local authorities and new towns. Excluding privatisation proceeds, general government expenditure is now projected to increase by 5 per cent in 1987-88, a little less than the increase in 1986-87.

Table 1.10 shows the forecast for general government receipts. The forecast of tax and national insurance revenues has been increased by £2.75bn since the Budget. The forecast of on-shore corporation tax, including ACT, is about £0.75bn higher, mainly reflecting upward revisions, since the FSBR, to profits estimates for 1986 and, in the case of ACT, a higher level of dividend payments so far in 1987. The upward revision of £0.5bn to North Sea revenues is more than accounted for by the higher dollar oil price than was assumed at Budget time. The forecasts of personal income tax, VAT and national insurance contributions are also each about £0.5bn higher than in the FSBR. General government receipts in total are now forecast to rise by nearly 7 per cent in 1987- 88, following an increase of 6 per cent in 1986-87 (when North Sea revenues more than halved).

Table 1.11 shows the old and new forecasts for borrowing. The PSBR forecast is still subject to a great degree of uncertainty: the average error on PSBR forecasts for the current financial year made in the autumn is 0.5 per cent of GDP, or £2.5bn. But on the basis of this forecast, the PSBR, both including and excluding privatisation proceeds, will be lower as a proportion of money GDP than in any year since 1970-71.

Public spending

Continued from facing page

these programmes mainly reflect the effects of changes in comparable programmes in England. The Secretaries of State will allocate this expenditure taking account of local factors. The breakdown of figures between central Government, local authorities, and public corporations, is based on previous patterns of expenditure and may be varied except in the case of local authority relevant expenditure in 1988-89, where the provision for Scotland and Wales is as announced in July in the RSG settlement for that year.

For the later years the Scottish and Welsh local authority relevant figures reflect changes in the comparable totals for England.

Chancellor's departments: Additional resources have been provided for the Revenue departments to deal with increases in workload and to strengthen controls against drug smuggling. A third of the overall increase reflects changes in the estimates of relief on life assurance premiums and mortgage interest to non-taxpayers.

Other departments: This line in table 2.5 covers a miscellany of minor departments and programmes, civil superannuation costs, and the Property Services Agency. The revised plans provide for additional expenditure on maintenance of the Government estate which should enable the PSA to reduce the present backlog of major repairs over the next three years.

Science and technology: Additional provision for spending on science and technology is included in several of the programmes above. Among the increases in provision are additions for universities, research councils, launch aid, and other science and technology programmes. Spending on civil science and technology will rise by some £200m a year, including increases already announced, compared with the plans in Cm 56.

Local authorities

Local authority relevant public expenditure accounts for more than three quarters of total local authorities' expenditure. It comprises current spending on a wide range of services and contributions to housing revenue accounts in England and Wales.

It is forecast to exceed provision in Cm. 56 by £1.2bn in 1987-88. From the estimated outturn for 1987-88, the provision set for the three forward years shows annual increases of 3.5 per cent, 3.3 per cent and 3 per cent. The allocation to services is based broadly on local authorities' budgets for 1987-88.

The Aggregate Exchequer Grant to local authorities for 1988-89 has been set at £17.4bn, as announced by the Secretaries of State for the Environment, Scotland and Wales on July 23.

Local authorities' other current expenditure consists largely of Housing Benefit and Student Awards which are supported by specific grants from central government.

The plans reflect revised estimates of the costs of Housing Benefit. They take into account the proposed changes in benefit entitlement announced by the Secretary of State for Social Services on October 27.

Local authority gross capital spending in Great Britain in 1987-88 is forecast to be £7.1bn. After allowing for capital receipts, the net cost of programmes is forecast to be £3.7bn.

Gross provision for spending in 1988-89 has been increased by £0.6bn to £6.9bn and gross provision of £6.8bn and £6.7bn has been made for 1989-90 and 1990-91. Within this provision the amount issued as allocations will take account of the expected use by local authorities of the spending power available to them from other sources, notably capital receipts.

For the main local authority capital cash limit in England, allocations of over £2.6bn will be issued in 1988-89. Of the total, housing authorities will receive £1.3bn. Education allocations will rise to £369m in 1988-89, 24 per cent higher than in 1987-88, increasing the scope for work on school improvements.

Nationalised industries

External financing limits for nationalised industries in 1988-89 are listed in Table 2.4. In total there is an increase of £340m from provision in Cm 56. This reflects a number of changes but the main additions are for the electricity industries in England and Wales and Scotland. Investment plans have been substantially increased, particularly in the electricity industry, which is embarking on a major programme of building new capacity, and the water industry.

The plans also allow for additional investment by British Rail, London Regional Transport and the Post Office to improve the quality of service. Total nationalised industries' investment is expected to rise from about £4.5bn in 1987-88 to around £6bn in 1990-91.

Other public corporations

Provision is included under the heading of "other public corporations" for a large number of public corporations including Urban Development Corporations (UDCs), the Scottish and Welsh Development Agencies, the Northern Ireland Electricity Service, new towns and the Northern Ireland Housing Executive. Substantial increases to provision have been made for UDCs. These and other increases are offset in 1988-89 by increased estimates of receipts by new towns.

Reserves

The plans include reserves of £3.5bn in 1988-89, £7bn in 1989-90 and £10.5bn in 1990-91. These will be available to meet unforeseen requirements including estimating changes. The reserves for the two later years are higher than in any previous plans.

Privatisation

The estimate of net proceeds from the privatisation programme is £5bn a year, the same as in Cm 56. These proceeds are netted off the planning total and general government expenditure.

National Insurance changes announced

AFTER THE Chancellor had finished speaking, Mr John Moore, Secretary of State for Social Services, commented on the increases in planned expenditure on social security benefits Mr Lawson had announced. Mr Moore also announced changes to National Insurance contributions which will take effect from April 6, 1988. Part of his statement read:

Total expenditure on social security in 1988-89 is to be about £48.5bn - about £1bn higher than the estimate in the Public Expenditure White Paper at the beginning of this year. This reflects increases in the number of people claiming benefits, particularly lone parents and sick and disabled people.

All retirement pensions, other contributory benefits, benefits for the disabled and similar benefits will be increased to maintain their value.

There will be no increase in National Insurance standard contribution rates next year for either employers or employees.

In line with the requirements of the Social Security Pensions Act 1975, the lower earnings limit for class 1 contributions is to be raised to £41 per week, which is just below the basic retirement pension rate for a single person, as announced to the House on October 27. The upper earnings limit is to be raised to £305 per week, which is a little less than 7.5 times the new basic pension rate. The new earnings limits replace the current ones of £39 and £295 respectively.

The reduced rates of 5 per cent and 7 per cent for employees, and 5 per cent, 7 per cent, and 9 per cent for employers will be extended further; they will now apply to weekly earnings which fall below the ceilings of £70, £105, and for employers only, £155 (the previous ceilings were £65, £100 and £150 respectively).

Contributions payable by some contracted-out employees and their employers will rise slightly, partly as a result of the lower contracted-out rebate

Contracted-out employees with earnings above the old upper earnings limit (£295) will pay a maximum of £1.12 a week extra, and employers will pay a maximum of 46 pence per week extra.

The flat-rate class 2 contribution will be raised to £4.05 per week. The rate of class 4 contributions will not be increased. The annual limits of profits between which class 4 contributions are paid will be raised to £4,750 and £15,860 from £4,590 and £15,340 respectively. For those self-employed people with profits between £4,750 and £15,340 (the former upper profits' limit) class 4 contributions will be reduced by £10.08 per year in 1988-89 assuming an unaltered level of profits. For those self-employed people with profits at or above the proposed upper profits limit of £15,860 in 1988-89, annual class 4 contributions will be £22.68 higher.

The rate of class 3 contributions will be raised to £3.95 per week.

PRIVATISING ELECTRICITY

Paying for past errors

IS CECIL PARKINSON really fattening up Lord Marshall's Central Electricity Generating Board for privatisation?

The Energy Secretary has made it clear that his decision to require a sharply higher of return on the industry's capital, by forcing up tariffs, looks forward to a new era of more economic pricing.

For many years, the industry believed its much disputed repayment of debt to the Treasury was just a concealed tax on a concern whose main purpose was public service rather than profits. The repayment has been set at just over £1bn for 1988-89, which increases pressure compared with this year's £1.2bn because of planned increases in capital spending.

The prospect of privatisation has forced Mr Parkinson to focus on the rate of return achieved by the industry on its £37bn of assets (at replacement cost) - and to wonder whether any private company would be interested in an undertaking that makes only 3 per cent in real terms.

The electricity industry will need to invest some £15bn in power stations by the end of the century, both as replacements and to meet the expected rise in demand. So private investors will need a significant incentive to buy into such a cash-hungry enterprise.

The Treasury has stressed that even without privatisation the same economic argument would apply, and that capital can only be rationed properly if it is priced in line with market rates.

If the industry's cost of capital is forced up, the argument goes, it will have to raise prices as well as trying to be more efficient. Higher prices will curb the nation's increasing demand for electricity, as industrial and domestic users seek to conserve power. So the CEGB will not have to build as many power stations as it thought it would.

However, the electricity industry, having been dominated by the desire to beat British Gas in the energy market, is much less worried about raising capital and is strongly resistant to returning cash to its owner.

This has been reflected in falling electricity prices, as world coal prices declined while the Government's target rate of return for the industry was low. In the five years to April, electricity prices will have fallen by 20 per cent in real terms.

Last year the return on assets went up to 3.2 per cent, compared with the three-year moving target of 2.75 per cent, but is expected to fall back to about 2.45 per cent this year, mainly because of continuing problems with advanced gas-cooled reactors (AGRs) - a failure which has cost about £100m so far this year.

This operating loss from the nuclear stations is equivalent to about 2 per cent of electricity bills and will reduce the return on assets by about ½ per cent. The industry says it is absorbing this loss by making savings elsewhere.

The new target rate of return of 3.75 per cent for 1988-89 and 4.75 per cent the following year will push up prices by 8 to 9 per cent next year and perhaps 6 per cent the year after, a real increase after inflation of about 6 per cent. So the effect will be no more than to claw back about a third of the real decline in prices over the last five years.

The industry claims it is already able to make a return of 5 per cent or better on new power stations, and that its present low average return reflects past mistakes, which should be paid for by the Government as owner of the industry rather than by consumers. Moreover, the Government could easily raise the average rate of return on investment by selling the industry at a discount to its asset value.

Max Wilkinson

ASSET SALES

Well on target for proceeds

THE Chancellor set the Government's target for receipts from the sales of state-owned companies at £5bn in each of the next three fiscal years, unchanged from this year's target and plans in last year's Autumn Statement.

The broad arithmetic suggests that the Government can hit next year's target without scheduling any new privatisations and that it appears to be heading for an overshoot of this year's target.

If Mr Lawson is not substantially to overshoot the target for 1988-89 announced yesterday, the assumption must be that the Government is not planning to sell its remaining stake in British Telecom next year.

The decision to go ahead with the sale of the Government's remaining stake in British Petroleum last Friday ensures that the Exchequer can easily fulfil its target of £5bn proceeds from asset sales this year.

The privatisations of British Gas, British Airways, the British Airports Authority, Rolls-Royce, Royal Ordnance and National Bus should add up to £4.2bn and the first tranche of BP should bring the Exchequer around £1.1bn before costs.

However, if the Bank of England has to fulfil its commitment to buy back BP shares, either from private investors or the underwriters of the issue, proceeds from the sale would be lower.

In addition, the Government will receive the repayment of £250m of British Telecom debt next month, taking the total for this year's proceeds to about £5.5bn. It also has the option of redeeming £250m of British Gas loan stock.

In 1988-89, the Government is already assured of £4.5bn from instalments on the sales of British Gas, the BAA and BP. To this could be added £250m from British Gas, taking the Government very near to its £5bn target and leaving little scope for the sale of British Telecom shares unless the issue were to be set up with a small first payment to fall next year.

The Government accounts for privatisation proceeds as negative spending. The Chancellor acknowledged yesterday that privatisation proceeds had made an important contribution to the low projected outturn in the Public Sector Borrowing Requirement this financial year.

Mr Lawson said he now expected the PSBR this year to be about £1bn instead of the £3.9bn forecast at Budget time.

He said that public spending would continue to fall as a share of national income, even excluding privatisation proceeds of £5bn in each of the next three fiscal years.

Janet Bush

TRAINING

Focus on long-term jobless

THE parameters for a comprehensive review of the Government's employment and training strategy for the long-term unemployed were set by a broadly unchanged provision for the Department of Employment of £4.25bn for 1988-89, rising to £4.36bn in 1990-91.

The provision for next year is an increase of £80m on plans published in the public expenditure White Paper in January.

Mr Norman Fowler, Employment Secretary, is expected to ask the Manpower Services Commission to begin a thorough review of adult training measures within the next few weeks.

Mr Fowler said that expenditure on the Youth Training Scheme is being increased to ensure the Government can meet its guarantee of a place for all unemployed 16 and 17-year-olds.

The Government plans a series of changes to the schemes for the long-term unemployed. They include more training on the Community Programme.

Charles Leadbeater

AGRICULTURE

CAP cost less than expected

THE COST of funding farm surpluses under the European Community's common agricultural policy (CAP) should be lower than expected over the next three years. So spending on agriculture is scheduled to show net reductions on previously published plans of £180m this year, £178m in 1988-89 and £148m in 1989-90.

However, overall spending on agriculture will increase from £2.43bn in 1987-88 to £2.81bn in 1990-91.

The principal savings come from price cuts and other measures designed to curb spending on the CAP. Expenditure associated with the CAP is planned to be £1.57bn for both this year and next; £1.69bn for 1989-90 and £1.84bn for 1990-91.

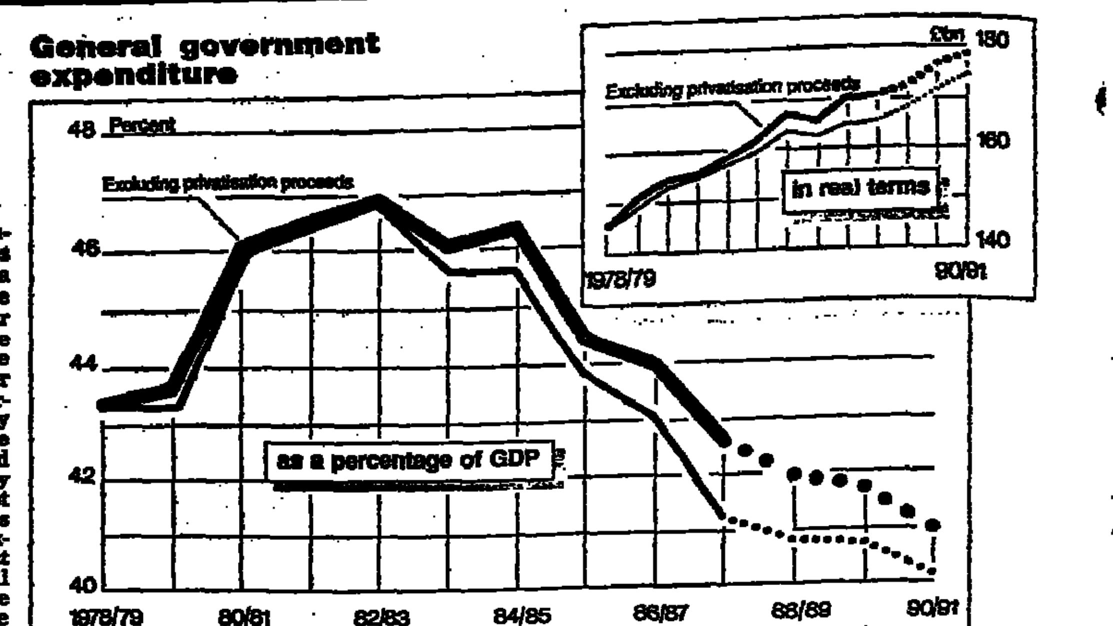
In the part of the budget for which Britain is largely responsible, increased spending is envisaged - mainly to find alternative uses for land producing surplus commodities.

Bridget Bloom

UK NEWS - THE ECONOMIC STATEMENT

ECONOMIC ASSESSMENT

Paternalism in reverse



THE CHANCELLOR'S autumn statement was both boring and complacent. *Boring* because the announced increases in public spending were broadly in line with expectations; complacent because to hear Mr Lawson discuss the outlook for the UK economy one would never guess that stockmarkets had just experienced their biggest fall in six decades. Mr Lawson referred to the crash but he clearly doubts that it will have significant consequences for the real economy.

The statement, like those on previous occasions, can also be *criticised for its deliberate lack* of clarity and for the narrowness of its focus. Mr Lawson continues to use the public sector borrowing requirement as his main yardstick of the fiscal stance. The *fact* that the PSBR will fall to only £1bn this financial year provoked predictable Tory cheers in the House of Commons.

Yet even schoolboy economists know that it is a hopelessly inadequate guide to the tightness or laxness of fiscal policy. Mr Lawson should have disowned it long ago. (He should also stop making statements such as "spending on defence *will increase by* $230m next year"; the House would be better informed if he gave the relevant real percentage increase.)

The Autumn Statement should surely offer a much more sophisticated measure of the fiscal stance. This cannot be provided simply by adding back privatisation receipts (which are forecast to continue running at £5bn a year), although this would be a step in the right *direction. The crude borrowing* total should also be adjusted for the state of the economic cycle *and (more* controversially) for the effects of inflation. In the absence of sophisticated offical measures of the fiscal stance, people will continue to focus on the crude PSBR and wonder whether the UK should be running a "budget surplus".

The narrowness of the statement's focus is equally irrational. *Why concentrate only* on spending and ignore taxation? Why does the Chancellor not talk openly about the expected room for tax cuts and, more important still, discuss the pros and cons of different types of tax reform - one of the Treasury's principal internal preoccupations? There is no reason for continued pre-Budget secrecy, especially if, as the Chancellor claims, the economy is in such sound shape. Why not break with an unproductive tradition and allow the Autumn Statement to play a role closer to that of a real draft budget?

The announced increases in *public expenditure planning totals* (£2.6bn in 1988-89 and £5.6bn in 1989-90) fully reflect the compromise position worked out by the Thatcher Government in time for the last election. This is that government spending should fall as a percentage of GDP, but continue to rise in real terms. The compromise is more reasonable than past policies. (The Tories originally wanted to cut public *spending in real terms, then to* hold it constant.)

But it still lacks a full rationale. The Government has got the cart before the horse when it decides in advance by how much it wants aggregate public spending to fall as a ratio of GDP. Instead of using this macro imperative as a justification for screwing down particular departments, it might be more productive to adopt a bottom up, micro approach. The important issue is not the rate at which public spending rises relative to economic growth in the rest of the economy, but the extent to which the Government is *efficiently* meeting the demand for various services.

There are reasons, in fact, *for suspecting* that *the ratio may* need to rise rather than fall. As economies grow richer, the demand for services tends to rise more than proportionately. The Government has backed away from a radical redrawing of the boundaries between the state and the private sector. In logic, it ought therefore to stand ready to meet an increased *relative* demand for public services such as education and health. *In striving to force the public* sector to contract relative to the economy as a whole, it is almost certainly failing to meet the demands that people would express in free markets. This is paternalism running in reverse: denying people the right to things you know they want.

The fine print of the economic forecast accompanying the Autumn Statement acknowledges that equity prices "have been a significant factor behind the continued strength of consumer demand in the US". Given the large weight of the US in the world economy, the Chancellor may thus be in danger of underestimating the contractionary impact of the worst share price slump since 1929. The UK and US *economies remain strongly* interlinked: if the US cannot find a non-deflationary means of curbing the growth of its external indebtedness, it is most improbable that the UK will easily be able to weather the ensuing storm - whatever the Treasury's econometric model suggests. (Models are notoriously poor at coping with sudden shocks.)

The Chancellor's claim that *the outlook is for "further sus*tained growth and steadily rising living standards, with inflation low and unemployment continuing to fall" should thus be taken with a large pinch of salt. The immediate prospect is actually for a sharp deceleration in UK growth: even Mr Lawson accepts that next year's increase in GDP is likely to be only around 60 per cent as large as this year's (2½ per cent growth as against 4 per cent). It *could be a good deal less.* It seems highly optimistic, for example, to assume that UK business *investment will rise* 5½ per cent in 1988 after a stockmarket crash that has sharply raised the cost of equity finance.

The unemployed are likely to bear much of the burden of a significant reduction in growth. *Even if the* Chancellor's relative optimism proves justified, he is most unlikely next autumn *to be able to hail another* 400,000 reduction in dole queues. That was the gift of 4 *per cent growth.*

The most encouraging and least controversial part of Mr Lawson speech was his pledge to "play a full part in the international co-operation which is more than ever needed today".

The Chancellor's advocacy of co-operation and acceptance that foreign exchange markets need managing is welcome, particularly in the wake of his recent public attack on the policies of the West German Bundesbank. Effective international co-operation is likely to be essential if current account imbalances are to be curbed without recession.

Michael Prowse

EDUCATION

Repairing the schools

EDUCATION expenditure plans include special provision for what Mr Kenneth Baker, Education Secretary, described yesterday as a "substantial programme" of improvements in *school buildings.*

The launch of this programme coincided with publication by *the Education Department of a* survey, conducted in 1986, indicating that schools need to spend between £2.1bn and £3.1bn to meet statutory accommodation and structural requirements.

The Government is to commit an extra £100m each year for the next three years for capital spending on *schools* and colleges. This is part of an overall spending target of £17.96bn for *education and science* in 1988-89 - an increase of £1.3bn on plans for 1987-88 and therefore an increase, in the Government's view, of 7.8 per cent.

Mr Baker described this as "a pretty good deal for education." But opposition politicians and local authority leaders contended that the increase was in reality much less when the *actual* 1987-88 expenditure is compared with the 1988-89 plans.

*On the basis of 1987-88 spend*ing already budgeted, the local authorities say a current (excluding capital) expenditure target for 1988-89 of £13.87bn represents an increase of only 4.8 per cent.

The Government is expecting local authorities to continue to rationalise school provision, to remove surplus accommodation and to cut the net costs of school meals. Mr Baker is reported to have told local authority leaders that £100m could be saved *by putting school meals ser*vices out to competitive tender.

The spending plans allocate *about £65m over three years to* fund development of the national curriculum. Most of this will go to set up and run the proposed National Curriculum Council and Schools Examinations and Assessments Council. But the Government says its plans make full allowance for continuing to equip schools for the new GCSE examination.

Many local authorities dispute this, as they are likely to *dispute the worth of the £100m* annual boost for capital spending - £50m of which in 1988-89 will be specifically to deal with problems identified in the department's survey.

Mr Jack Straw, the Labour Party's shadow education spokesman, said of the survey and the Government's extra £100m commitment: "At this rate of progress it will be 30 years before our schools are *brought up to standard.*"

● The allocations for higher education for 1988-89 are up 9 per cent on the current year's figure to £781m, plus £9m to help polytechnics and universities reorganise their management when they are freed by the impending Education Bill from local authority control.

April's higher education White Paper announced that the universites and polytechnics are to share 50,000 more students than had been previ*ously planned for the 1990s.* Polytechnic chiefs argue that they will need more money to *take in these extra students, but* the Government insists that currently scheduled resources "should be" enough.

The universities' 1988-89 increase of £117m is in two parts. About £56m of it covers the 7.8 per cent second stage next April of the 24 per cent pay rise *for university dons announced* in March, but will not be forthcoming until the Government is satisfied that the universities have *sufficiently improved* their arrangements for staff-appraisal.

The other part, £61m in 1988-89, is mainly for restructuring.

A total increase of £131m, £60m for pay and £71m for restructuring and so on, has been sketched in for 1989-90, and £133m - split £60m/£73m - for the year after.

The science budget for *1988-89 goes up by £47m over* the previously scheduled amount to £626m, with a provisional planning figure of £729m for each of the following two years.

David Brindle
Michael Dixon

HOUSING

Rush to buy fills coffers

THE rush by council tenants to buy their homes in the run-up to the general election has meant that receipts from sales of local authority and new town assets are likely to be £800m higher than expected during the current financial year.

As a *result* the Government has been able significantly to increase its spending plans for *housing, the inner cities and* the environment without increasing the burden on the taxpayer, Mr Nicholas Ridley, Environment Secretary, said yesterday.

Housing expenditure by local authorities, housing associations and public corporations is planned to rise to £3.83bn in 1988-89 - almost £400m more than previously proposed.

In 1989-90 housing expenditure *spending of £3.77bn is* planned to rise by almost £300m more than forecast.

The increase is more than covered by the rising trend in capital receipts which Mr Ridley expects to exceed £2bn a year for the next three financial years - almost £400m a year more than forecast.

Mr Ridley said the ability to release extra resources for housing and inner city programmes was a clear vindication of the Government's policies of right-to-buy and of *selling off* local authority and new town assets.

As a result of the increase in *receipts*, the Government proposed to increase spending allocations in the current financial year by £75m - £45m of which would be used to tackle homelessness and other financial needs.

The housing expenditure plans also highlight the beginning of a switch in emphasis *away from local authorities to*wards voluntary housing associations.

Housing associations have feared that the Government might use any private sector money raised to reduce public sector investment rather than as a means of increasing resources

However, the spending proposals announced yesterday for the Housing Corporation, *which administers grants to* housing associations, show an increase over previous expenditure plans. Spending in 1988-89 is expected to be £49m higher than forecast at £735m.

Mr Ridley said that gross provisions for the Housing Corporation by 1990-91 were proposed to be £145m higher than the expected outturn of £765m for the current financial year.

Andrew Taylor

HEALTH AND SOCIAL SECURITY

Disagreement likely

THE NATIONAL HEALTH Service gained what Mr John Moore, Social Services Secretary, described as its "largest ever additional sums of money" under yesterday's expenditure increases.

There will, however, be im*mediate disagreement between* the Government and health authorities over the adequacy of the increase. The authorities argue that the NHS has produced dramatic efficiency improvements in recent years and have been arguing for substantial additional resources.

Under the increases,planned spending on the *NHS in En*gland will rise by £1.1bn in 1988-89, an increase of more *than £700m on previous plans.* Over the coming three years to 1990-91, planned spending will go up from £16.5bn this year to £19.3bn.

Health authorities will receive £700m more in 1988-89 than in the current year - £479 more than was planned in last year's survey. The Government says this will enable initiatives to reduce waiting lists to be enhanced, as well as making a sub*stantial extra contribution* towards the costs of AIDS-related facilities.

Government expectations are that the continuation of cost-improvement programmes will yield about as much savings next year as this - around £150m. Ministers say these savings plus the proposed increases in expenditure will give the health authorities an increase in resources of just over 3 per cent *in real terms.*

Mr Tony Newton, Health Minister, said yesterday that the increase in resources took account of all factors involved in health funding. But he did not give a figure for the extent to which the proposed increase makes provision for previous under-funding of national pay *awards - one of the most serious* financial concerns of the health authorities.

The precise allocation to regions of the extra money announced yesterday will be made around Christmas.

In additional to the increased funding and money saved from cost improvements, the Government expects health authorities to earn around £90m next year from private patients' charges. *Authorities will also be encour*aged to generate extra cash by making money from the non-NHS use of hospital facilities - such as selling refreshments to hospital visitors, and disposing of surplus equipment. Such activities, ministers believe, could raise £10m-£20m a year.

Savings through efficiency improvements have been an important recent source of income for health authorities. But there are *increasing divisions of opin*ion about the scope which is left for further savings without affecting patient services.

Health authority capital expenditure is expected to be around £1bn a year over the next three years. Capital allocation from the Exchequer will be £810m next year, with the remainder coming from land and property sales. Around 70 new major building schemes are *planned to start next year.*

Total expenditure on social security will be around 48.5bn in 1988-89 - £1bn higher than estimated in the Public Expenditure White Paper earlier this year. This is because of increases in the *number of people* claiming benefit, mainly single parents and the sick and disabled.

Mr Moore, who last week announced that child benefit payments are to be frozen at existing levels, stressed again that an additional £320m will be directed to families in greatest need through the family premium and the new family credit scheme. "Thus we will be increasing, not reducing, the overall level of resources devoted to families with children," he said.

Standard rates of employees' and employers' National Insurance contributions will remain unchanged for the fifth successive year, although the lower and upper earnings limits will be raised.

● The Home Office announced that its major prison building programme is to continue, providing a further 4,200 places. There will also be further additions to police strength - 300 of*ficers in the Metropolitan force,* and 500-plus civilians in the provinces. This will take police strength to 125,113 officers and 47,722 civilians by March, 1989. Many previous increases in police strength have failed to produce a corresponding rise in officers on the beat, and police forces are now under pressure to transfer as many non-operational roles as possible to civilians.

Alan Pike

TRANSPORT

Extra for M-way repairs

EXPENDITURE on roads has been increased substantially to overcome the maintenance backlog on motorways and other trunk routes by 1992 and to launch a programme of bridge repairs.

Mr Paul Channon, Transport Secretary, claimed the taxpayer would get the best value ever from the spending programme, partly because of the increase in cash and partly because of higher quality - major roads are now being built to last for 40 years rather than 20.

In broad terms the Government plans to spend £2bn over the next three years on building new roads and £1bn on renewing 240 miles of motorway and 600 miles of other trunk roads. Compared with this year, spending in real terms on national roads will be 3 per cent higher next year, 5 per cent more the following year and 9 per cent higher in 1990-91.

The major new construction schemes include: the M1-A1 link which should be ready in 1991, the M40 extension to Birmingham, improvements to the M20 before the opening of the Channel Tunnel in 1993, and upgrading major sections of London's North *Circular road.*

Within the programme there will be an increase of 30 per cent on bridge maintenance, where the backlog of work threatens to become as long as that on trunk roads. Expenditure of £27m in the current year will rise to £38m next year and £51m the year after.

One problem the Government is having difficulty in overcoming is the failure of local authori*ties to spend their allocation* on road maintenance. Total provision is for a 4.3 per cent increase *on local authority budgets for* 1987-88, unchanged from the previous year because of a significant underspend.

"Local government is under-spending on transport and over-spending on everything else," said Mr Channon. "I am stuffing money down their throats like a Strasbourg goose, but so far they are just regurgitating."

So far this year local authorities are £140m down on their road maintenance spending allocation because of their insistence on giving transport a lower priority than items like housing. The plans provide allocations of over £530m for local roads.

Bus deregulation is enabling local authorities to reduce their support payments for public transport services by 22 per cent in 1987-88. The provision will enable them to increase expendi*ture by 7 per cent next year to* develop the unsubsidised network.

Richard Evans

OVERSEAS AID

Help for poorer nations

THE OVERSEAS AID budget has been increased by £30m in *1988-89* and by £60m *in 1989-90* compared to the figures contained in the 1987 Public Ex*penditure White Paper.*

The announcement was immediately welcomed by Mr Christopher Patten, Minister for Overseas Development, who said it meant that the aid programme would grow in real terms over the next three years.

It is expected that the bulk of the new money will be used for *aid to the poorest countries, in*cluding Africa, and for increasing bilateral aid. But the cost of *the Chancellor's latest debt* initiative for the poorest and most heavily indebted sub-Saharan *countries will be in addition to* the increases announced yesterday.

The effect of Mr Lawson's decision is to increase the overseas aid budget from £1.235bn in the current financial year to £1.305bn in 1988-89 and to £1.375bn and 1.420bam in the two following years.

Though there is a net overall reduction in the provision for the Foreign and Commonwealth *Office's diplomatic wing,* the BBC External Services will benefit from an increase in current *expenditure of £4m* to £89.4m in 1988-89 and of £6.5m to £94m in 1989-90. The revised spending figures for the diplomatic wing - £720m in 1988-89 and £740m in 1989-90 - comprise provisional reductions in several programmes

Robert Mauthner

DEFENCE

Younger holds his own

THE DEFENCE budget has emerged intact for 1990-91, with no change in real terms compared with the previous year. The total is also to be cut by only 2½ per cent over the four years to 1989-90, half the reduction forecast in May's defence white paper.

This is the second year Mr George Younger, the defence secretary, has succeeded in at least holding his own in discussions with the Treasury on the defence budget. Officials yesterday expressed quiet satisfaction with the outcome.

Service chiefs were also said to be satisfied. Nevertheless, it was admitted at the Ministry of *Defence that the outcome does* not rule out problems in defence equipment programmes, especially on the timing of future orders.

The zero change in real terms in the defence budget for 1990-91 compared with 1989-90, is accounted for by a £600m increase in the budget in cash terms.

Lynton McLain

BENEFITS

Spending estimates rise

INCREASES in the number of single parents, sick and disabled people *claiming* benefits have helped push up estimates of total social security spending in 1988-89 *to about £48.5bn* - about £1bn more than estimates published nine months ago in the Public Expenditure White Paper.

The revised estimates also reflect the impact of the Government's agreement to raise benefits to protect income support claimants against the cost of their contribution to rates, said Mr John Moore, the social services secretary.

Nevertheless, *Mr Moore said* there would no increase in National Insurance standard contribution rates next year for employers or employees.

Mr Moore said the standard rate of National Insurance contributions would remain at 9 per cent and 10.45 per cent respectively, with 1988-89 as the *fifth* successive year in which they have been unchanged.

In line with the 1975 Social Security Pensions Act, the low*er earnings limit for class 1* contributions will go up from £39 to £41 per week, while the upper *earnings limit will rise from* £295 to £305.

Earnings between the upper and lower limits form the band on which the State Earnings Related Pensions Scheme is based. Under the 1975 act, the upper limit must lie between 6.5 and 7.5 times the basic pension. The proposed changes mean that the upper earnings limit is, as in 1987-88, a *little less* than 7.5 times the new basic pension rate.

No increase is planned in standard National Insurance contribution rates

There will be changes, however, to the application of the reduced National Insurance contributions paid by and for the *lower-paid. The reduced rates* of 5 and 7 per cent for employees, and 5 per cent, 7 per cent and 9 per cent for employers will now apply to weekly earnings which fall below ceilings of £70, £105 and, for employers only, £155.

Also, contributions payable by employers and their employees who are contracted out of the State Earnings Related Pensions Scheme will rise slightly.

Contracted-out employees with earnings above the old upper limit of £295 will pay a maximum of £1.12 extra per week, while employers will pay a maximum of 46p extra.

Self-employed people will see their fixed rate class 2 contributions go up to £4.05 per week.

Nick Bunker

POLITICAL ASSESSMENT

A prudent Chancellor flies on autopilot

CHANCELLOR Lawson's stock in the Conservative Party is so high at present that in yesterday's Autumn Statement he could have got away with almost anything, provided he gave a decent explanation. The fact is, however, *that his statement* was entirely orthodox by his own lights.

Although the Chancellor referred to the recent collapse in the world's equity markets (he called it a "fall") and the markets were none too happy again yesterday, there was very little evidence that his statement had been changed as a result. Nor was there much about the weakness of the dollar, save for a few jabs at the Americans, in answer to questions, about their budget profligacy.

What we saw again was the prudent Lawson. A few years ago that would have been regarded as an unlikely sight. Now it seems to have come to stay.

Indeed there is almost a set formula. The Chancellor never does quite as much as he might. *The prudence comes, or has* come so far, in saving it up for next time in the expectation that there is time in hand and that it is unwise to take too many risks at once.

Part of the technique lies in increasing what used to be called the contingency reserve but is now just called the reserve to meet unforeseen requirements. Mr Lawson has done it again. The reserves for 1989-90 are £7bn and for 1990-91 £10.5bn, higher than in any previous plans.

Provided that revenues are high enough, everything else falls into place. Since they are, the Chancellor looks like being able to repeat last year's achievement of reducing the *public sector borrowing* requirement, cutting taxes and raising public expenditure all at the same time.

The basic task that Mr Lawson sets himself is simply to bring down public spending as a percentage of gross domestic product. It has fallen from 45½ per cent in his first year as Chancellor to an estimated 41¼ per cent in the current year and to a projected 40¼ per cent in 1990-91. The borrowing requirement has virtually disappeared.

One sometimes has the impression that he does not mind too much what happens to any revenues that are left over, so long as taxes are also cut. Revenue decisions are for spending departments.

In the event the increases have gone to such current Tory priorities as education, law and order and housing. There was also something for the universities, since no Government enjoys being unpopular in that area for too long. It can sour too many friendships.

The sector that has not gained as much as it might is health. That seems to be because another fundamental reconsideration of how best to organise the health service is under way. Additional funds may have to await its completion, just as the Tories delayed raising spending on education until they believed that they were taking the system in hand.

The area that has got off lightly is defence, once one of the Prime Minister's favourites, but not any more. Resistance by the Defence Ministry to savings and to disposing of some of its properties is beginning to strain nerves *in Downing Street.* It would not be surprising to see it pushed harder next time.

One remarkably *confident as*sertion in the statement was that business investment is expected to rise next year by 5½ per cent. This is an area where prudence might have dictated a warning that the forecast could be affected by the recent developments in the markets, but the Chancellor went out of his way to stick to it.

For the rest, it looks as if sterling is tied to the D-mark provided that it does not go above DM3. Inflation is regarded as manageable, but there is still no date for the realisation of the aim of stable prices.

What marred the afternoon was not the events in the markets, though perhaps they should have done, but the announcement by *Mr Cecil Par*kinson, the Energy Secretary, of the forthcoming rise in electricity prices.

It looks like ineptitude on someone's part that prices should have been kept unchanged for five years and were therefore falling in real terms on the grounds that there was an electricity surplus, only for it to be discovered recently that there will be a huge shortfall requiring billions of pounds of investment to make it up before the end of the century. Someone, the Government as a whole perhaps, must have blundered badly.

Malcolm Rutherford

NATIONALISED INDUSTRIES

British Steel to be a lender

THE alteration in the financing of the nationalised industries will be marked next year by *British Steel's change* from the status of a large-scale borrower to a lender to the debt markets.

This transformation *in the* steel group is in line with what is happening elsewhere in most of the public sector companies. But at British Steel, which generated profits of £178m last year, it is particularly marked: in the current year the company has an external borrowing limit of £28m, a far cry from the £1.1bn of 1980/81; next year, it will be required to lend £100m.

Since the beginning of this decade, borrowings in the nationalised sector have been reduced from £3bn to an estimated £590m in the current year.

This trend will be reversed in 1988/89, when the external financing limit for the nationalised companies in total is planned to go up to £687m. The main reason for this reversal is additional *investment* planned for the electricity industry, which is embarking on a large-*scale programme to build new* capacity in advance of planned privatisation.

Overall, the nationalised companies are expected to raise investment from £4.5bn in the present financial year to £6bn in 1990-91.

Even so, most of the companies will show a reduction in their external financing limit next year.

Terry Dodsworth

Why do you drink Perrier?

You drink it, of course, because you like it.

Because it is pure, French, naturally sparkling, refreshing.

Or you drink it because you are usually given Perrier when you ask for mineral water.

Or because you ask for Perrier and not for mineral water, using the name as a generic.

None of which quite answers the question.

Why Perrier?

Why not some other mineral water?

Why mineral water at all?

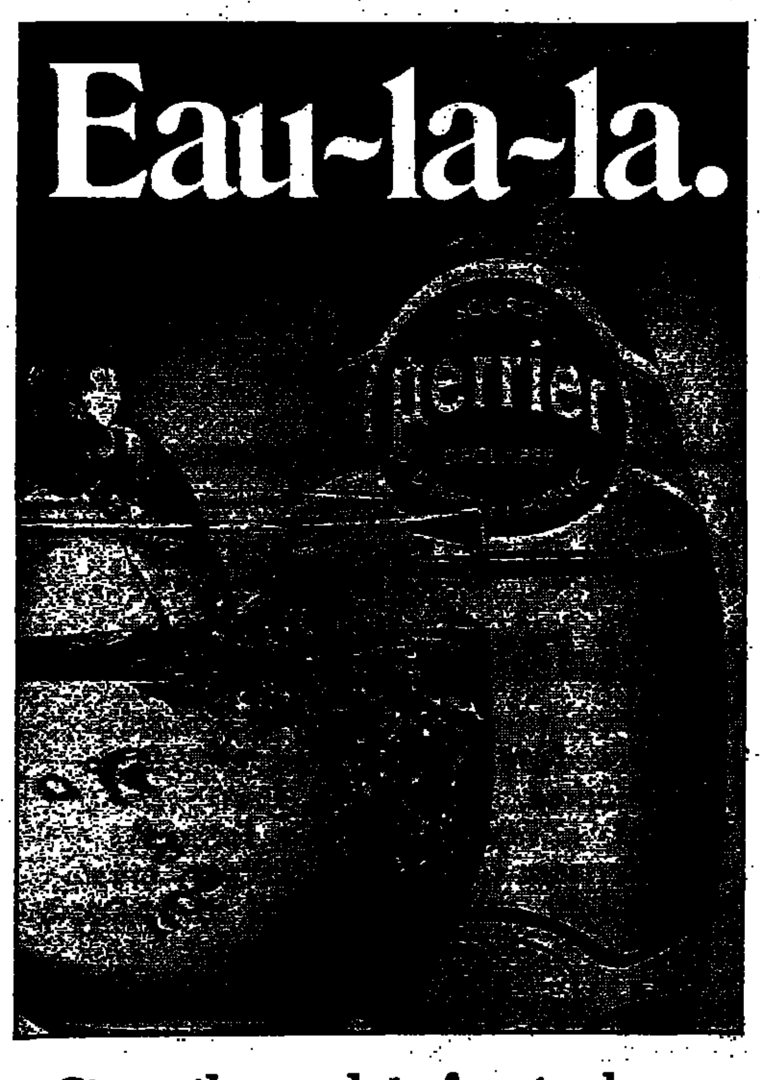
To answer those questions, we must go back eleven years.

In 1976, the British bought 6 million bottles of mineral water.

Fewer than 3 million of them were bottles of Perrier.

And somebody expressed the not unreasonable opinion that the British would never pay for water.

In 1978, Leo Burnett ran this modest four-sheet poster in London:



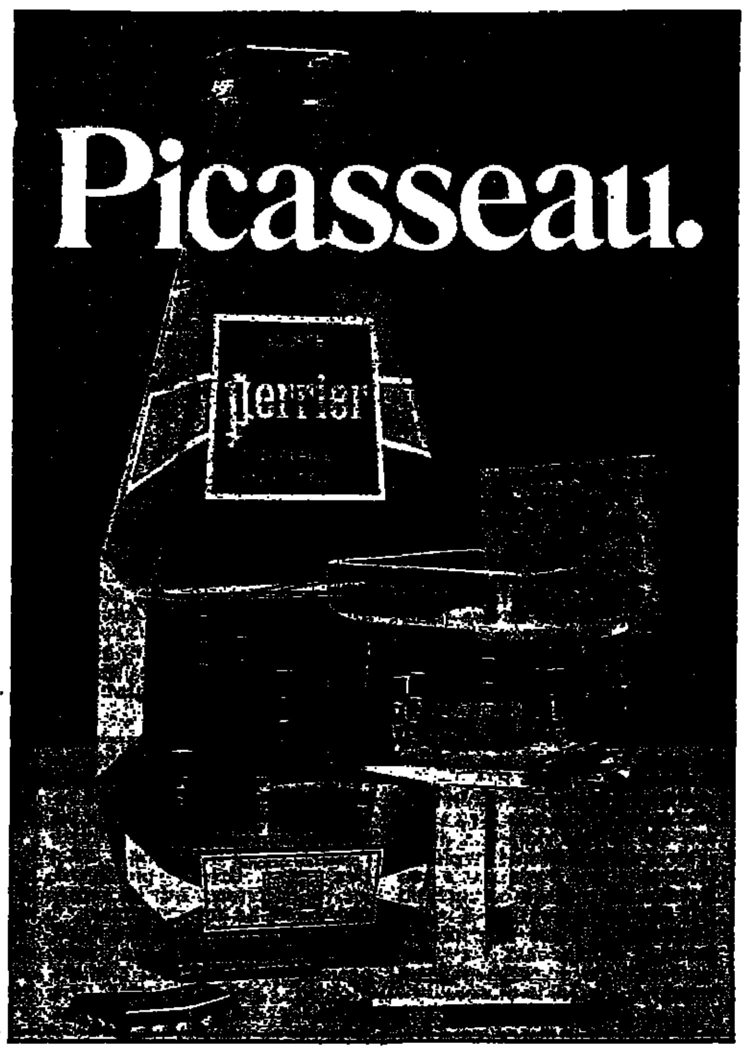
Since then, a lot of water has flowed under the bridge.

Last year, the British bought 128 million bottles of mineral water.

More than 77 million of them were bottles of Perrier.

In the last 12 months, Perrier have sold more than 100 million bottles and sold 4 million in one week alone.

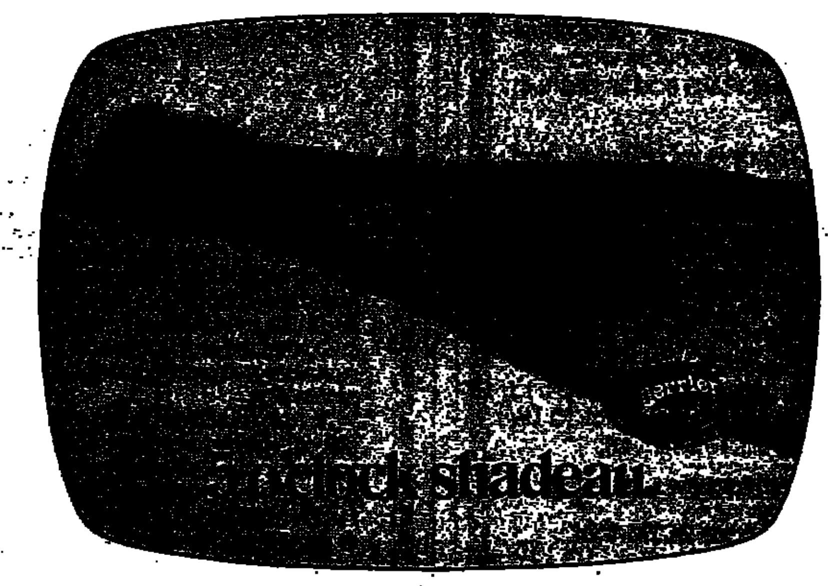
It has a bigger share of that much



bigger market and is still far and away the brand leader.

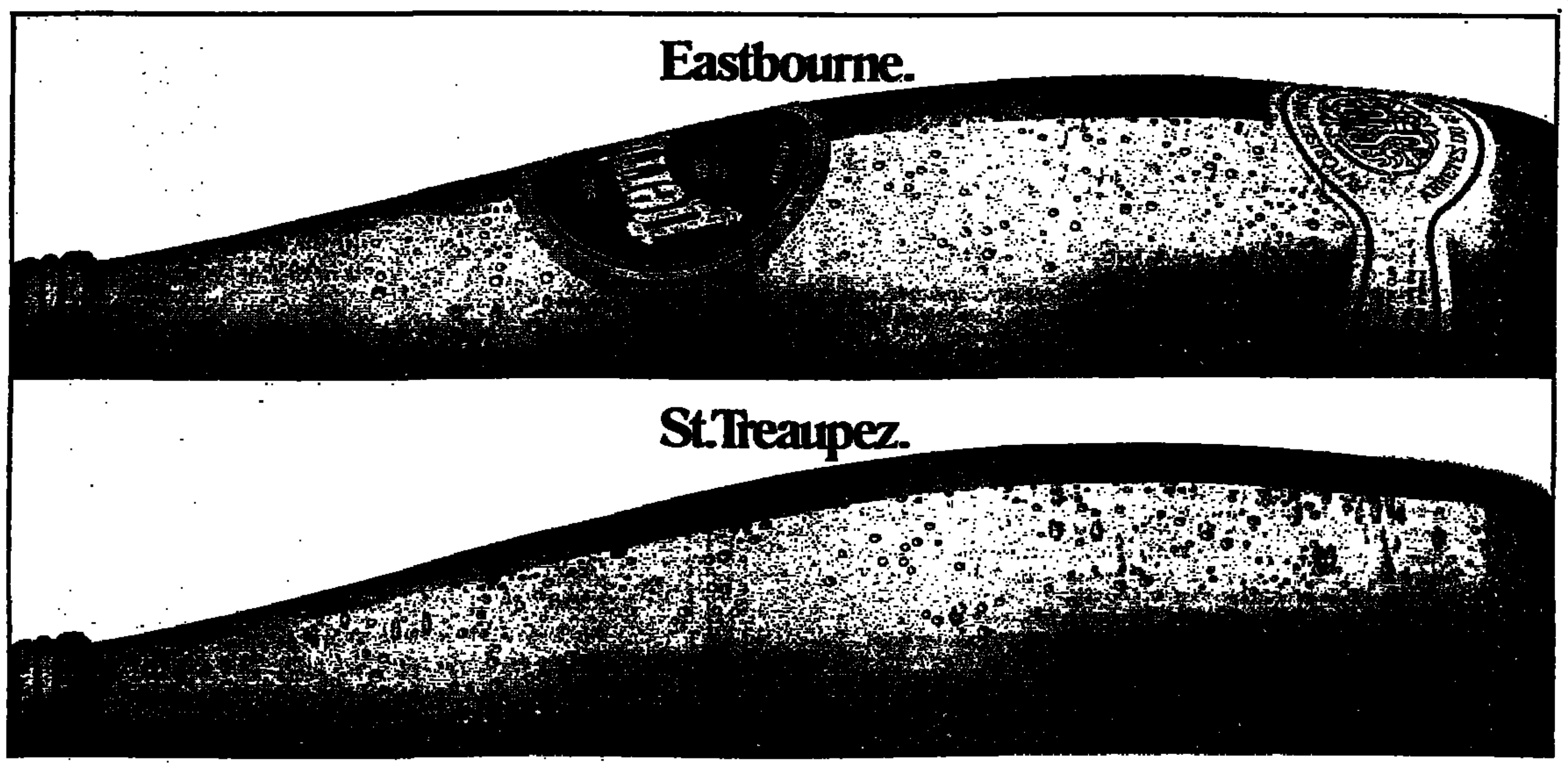
Despite the coming of many new waters.

Despite even the competition of own-label.



Not much, though, has happened to the advertising.

It appears in more media and more



parts of the country, but the campaign is still the same.

Not because we are complacent or have run out of ideas.

But because it is still building the brand and increasing the sales.

Its success, in fact, is deceptive.

The Perrier campaign looks far bigger than it is because it is long-running and consistent.

Which brings with it an added advantage:

Having built a brand, you can extend it.

Last year, Perrier introduced Perrier flavours.

We considered other campaigns, but this was the launch advertisement:

Perrier flavours have now sold more than 15 million bottles.

The advertising, of course, isn't the only reason.

Perrier is an excellent product, as you know.

But, without the advertising, would you have known it?

LEO BURNETT
ADVERTISING

Jeff Fergus, Managing Director.
Leo Burnett, 48 St. Martin's Lane, London WC2N 4EJ. Tel: 01-836 2424

What people really strive for at work

BY MICHAEL DIXON

IF YOU have people working for you, which of the following two statements do you think describes their general attitude to their job?

X.- People have an inherent dislike of work and cannot be trusted to accept personal responsibility for producing good results. So unless they are directed and controlled by others with power to punish them, they will usually skimp the job.

Y.- Work comes as naturally to people as play or rest. So if they are respected as humans and are enabled to take an individual interest in their job, they will not just accept but keenly seek responsibility for doing it well.

Unless you readers are very unusual, you will have plumped for one or the other of those views without demur. For, as most of you who have been on management courses will know, "Theory X" and "Theory Y" have a respected place in the management canon.

Both were formulated in 1960 by the American psychologist Douglas McGregor, who said managers typically take either the first or the second view. He claimed moreover that how they deal with their subordinates depends centrally on which of the two opposed theories about human nature the manager in question thinks true. Studies of people's behaviour, he added, supported the optimistic Y more than the pessimistic X.

Today the Jobs column is proposing that both should be demoted in managers' thinking in favour of a single "Theory P". Before defining it, however, I'll suggest why the replacement is required.

The key reason is that neither of the opposed views noted by McGregor seems ultimately of much use to working managers.

There can be no doubt that organisations run according to the pessimistic view of mankind have proved useful in mass-producing standard goods of reasonable price and middling quality. But those in the west at least have hardly stood up well against eastern competition.

It may be that, because of the way western societies have evolved, Theory X runs into the law of organisational stupidity called Mars's Boomerang which states that imposed control antagonises creativity. Workers in a pessimistic-style regime, having no scope to use their ingenuity in their employers' interests, apply it instead in cheating the system.

By contrast, Theory Y might appear ideal for harnessing workers' creativity to the company's benefit. The trouble is that companies run on the optimistic principle, while they may sparkle and soar for a time, are apt to fall victim to other laws of organisational stupidity. Examples are Parkinson's two famous laws: Work expands to fill the time available, and: Expenditure rises to overtake income. When that happens, innovative productiveness gives way to expensive indolence.

In short, both Theory X and Theory Y have a limited value in practice.

A reason for their faults is not hard to find if we stop thinking about other people and reflect on our own work behaviour. For few if any of us could claim to be exclusively either an X-type of person or a Y-type at all times regardless of conditions. We tend to switch from one mode to the other. Moreover the circumstances which can lead us to change are too many and varied to be within the control of managers.

Power

Hence the need for a different theory about people's approach to work which could help their similarly human bosses to use them productively no matter what the conditions. And my candidate for the vacancy is Theory P which says people are averse to being helpless and so seek power in the organisations which employ them.

Whatever objections might be made to that theory, it cannot be accused of being new-fangled. It was proposed as an addition to modern management thought by the French sociologist Michel Crozier[1] only four years after Douglas McGregor published his formulations. But its roots, like theirs, lie deep in history.

Theory X can be traced back at least 2,500 years to the Greek philosopher Plato, and Y to his dissenting pupil Aristotle. P is probably older still. It was clearly known to Thrasybulus, tyrant of Miletus around 600 BC. When he was asked what were the principles by which he ran his country, he marched the questioner into a cornfield, and with the stick in his hand cut off the heads of all the cornstalks *that stood taller than the mass.*

While a fair number of today's chief executives might ache to manage in the same way, the complexities and conventions of the present age of course largely prevent it. The power sought by most people in the organisational ranks below them is far from great. All they may want is security against being subject to someone else's arbitrary whim. But the fact that they want it has immense implications.

In the absence of anything else, their only defence against arbitrary bullying will be personal violence - which is not very conducive to the smooth running of a company. So there spring up impersonal rules restraining the wilfulness both of bosses and of bossed. As tiers of management increase in number, the network of rules expands to cover a widening range of eventualities.

The consequence is often that the organisation's inhabitants become increasingly exercised about notions of fairness of treatment of themselves and their fellow-workers within the organisation, and less and less concerned about the wants of customers outside it. They may well come to take it as self-evident that the main task of their chief executive is to dispense internal justice.

The more the chief tries to do so, however, the more there comes into play the only law of organisational stupidity with a claim to being scientific. It is Goedel's Garbler, which says: No system of rules of procedure can be both comprehensive and consistent. As the illogicalities built into the rule structure prevent all-round fairness of treatment, the individual power units in the subordinate ranks combine in alliances to protect their sectional interests.

As a result, in a fully fledged bureaucracy, services to the customers can become at best merely a by-product of the organisation's inner writhings. What's more, its chief can be so hobbled by the net of shifting alliances as to have little if any effective power to bring about real change.

In such a pickle - which I feel may seem familiar to the heads of British Telecommunications, among others - what are the poor chiefs to do?

To my mind, it is doubtful that they will be assisted much by alterations to their overall circumstances, like turning their company from a nationalised into a privately owned concern. Nor will exposing them to competition necessarily do the trick.

That much was shown by the American economist Albert Hirschman[2] when he pointed out that a company does not need to have a monopoly to be riddled with "inefficiency, decay and flabbiness."

If a number of same carve up a market between them, all the dissatisfied customer can achieve by deserting one is dissatisfaction at the hands of another. The vision of several suppliers in the market nevertheless leads consumers to think they can gain satisfaction by transferring their custom.

As Professor Hirschman says, competition of that sort can be to the liking of flabby firms. "It keeps consumers from complaining; it diverts their energy to hunting for the inexistent improved products which might possibly have been turned out by the competition."

So what can the company chief do?

Well, there will be little avail in subscribing to either of McGregor's formulations. The chief's only hope is surely to turn to Theory P and act on its implications.

The first is to accept that the formal head of a bureaucratic organisation cannot have much directive power to change it. The next is to identify the mainsprings of power below. The third is to use every means - not just compromise but, where possible and appropriate, career assassination - to harness those mainsprings in the customer's service.

1.- *The Bureaucratic Phenomenon. Tavistock (UK) 1964.*

2.- *Exit, Voice and Loyalty. Harvard 1970.*

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Applicants should be insurance professionals with a track record of achievement in applying risk management techniques. In addition, they must have the personal qualities to form constructive relationships with senior management in operating companies.

The remuneration package includes a salary of c.£28,000, a car and other large company benefits.

Please write, enclosing full career details and CV, to Cathy Rowan quoting ref. G3700.

KPMG Peat Marwick McLintock
Executive Selection and Search
9 Creed Lane, London EC4V 5BR

CJA RECRUITMENT CONSULTANTS GROUP
3 London Wall Buildings, London Wall, London EC2M 5PJ
Tel: 01-588 3588 or 01-588 3576
Telex No. 887374 Fax No. 01-256 8501

A key entrepreneurial position providing stock options within 12-18 months and opportunity to trade up to flotation within 2-4 years

CJRA CHIEF EXECUTIVES – INDUSTRIAL SERVICES

N.W. ENGLAND **£30,000–£45,000**

FOR 2 NEWLY ACQUIRED INDUSTRIAL SERVICE COMPANIES – AUTONOMOUS SUBSIDIARIES OF NORTHERN GROUP

We invite applications from candidates, aged 32-38, with an M.B.A., who have acquired a minimum of 3 years demonstrably successful profit centre responsibility in general management in an industrial services or closely allied environment. Responsibilities will cover the further profitable trade up and growth, both organically and through acquisition, of one of these companies providing highly competitive industrial services nationally. Strong commercial vision and the capacity to build an even greater share in this market is important. Initial salary negotiable, £30,000-£45,000 + Car, contributory pension, free life assurance, free B.U.P.A., assistance with removal expenses if necessary. Applications in strict confidence under reference CEIS20006/FT, will be forwarded unopened to our client unless you list companies to which they should not be sent in a covering letter marked for the attention of the Securities Manager: CJRA

Challenging opportunity to progress through marketing support and research to full marketing officer within 1-2 years

CJRA ASSOCIATE – CORPORATE FINANCE

CITY **c.£20,000 + BANKING BENEFITS**

LEADING INTERNATIONAL INVESTMENT BANK

Ideally you will be in your mid twenties, a graduate, with 1-2 years merchant banking experience, preferably gained in equity underwriting for domestic corporate finance. Experience in domestic mergers and acquisitions and a knowledge of the UK corporate sector will also be considered useful as will an understanding of English law and accountancy. You should also be familiar with the use of information databases. Working as an administrator and researcher to a senior UK marketing officer you will have the potential to create and develop business opportunities energetically in a highly competitive market. You will also actively participate in presentations and discussions with clients. Initial remuneration by way of high basic salary and bonus will be negotiable in the range £20,000-£25,000 plus an excellent package of banking benefits. Applications in strict confidence under reference ACF20004/FT will be forwarded unopened to our client unless you list companies to which they should not be sent in a covering letter marked for the attention of the Security Manager: CJRA

CAMPBELL-JOHNSTON RECRUITMENT ADVERTISING LIMITED, 3 LONDON WALL BUILDINGS, LONDON WALL, LONDON EC2M 5PJ.
ORGANISATIONS REQUIRING ASSISTANCE ON RECRUITMENT: PLEASE TELEPHONE 01-628 7539

BROADEN YOUR HORIZONS IN Commercial Banking

With substantial growth in recent years Crédit Lyonnais UK has built a platform from which we can reach demanding targets in 1988 and beyond. Our expansion creates a number of opportunities for ambitious young commercial bankers who recognise that a career move to one of the world's leading banks is the right step to take.

Aged between 25 and 30 and educated to degree level, your experience to date should include proven ability in handling corporate clients. Your appreciation of risk is sound, and your ability to analyse and reason is well developed. You have the range of skills with people which are necessary for success in a demanding environment.

You will now be interested in acquiring some specialised expertise in one of the following fields, where we are expanding our existing teams:

- **property financing;**
- **syndicated lending and asset sales;**
- **lending to financial institutions;**
- **MBOs and special financing.**

If you already have direct experience in one of these sectors your application is also welcome. We will recognise your contribution, reward your performance and give you scope to develop. Success could bring progression into other areas, and there could be opportunities elsewhere in the Crédit Lyonnais group at a later date.

Please write with full details of your career to date to Alan Beazley, Personnel Manager, Crédit Lyonnais, PO Box 81, 84-94 Queen Victoria Street, London EC4P 4LX.

CL CREDIT LYONNAIS

BANKING

CREDIT ANALYST **C£20,000**

This major City-based mortgage Lender is offering an ambitious banker with a background in Analysis/Marketing the opportunity to join their expanding team. You will be responsible for negotiating the sale of mortgage portfolios to Banks, and thus a resilient nature and flair for new business are essential attributes. The position involves extensive liaison with Lawyers, Accountants and Bankers to arrange transactions. Excellent prospects and benefits package available. Age 20's.

For further details please call

Sarah Mendel or Gaynor Harris

on

01-236 1113

or write to

13/14 Great St Thomas Apostle, London EC4V 2BB

c26.000 +

One of Britain's leading publishers of economic and financial newsletters require an

ECONOMIST/EDITOR by January 1988

Successful applicants will be c-30-40 years of age and will have a profound and proven knowledge of industrial economic studies. data management. foreign exchange. investment. raw material and metal markets. Knowledge of German an advantage but not essential.

Apply with full details to:
Messrs Husain Bubnan and Co
212 Strand, London WC2R 1AP

Ref: ABT 4

SENIOR MARKETING MANAGER

CITY **to £30,000+Car+Bank Benefits**

European Bank wishes to appoint a pro-active manager to initiate and develop business with UK middle market corporates which will primarily have Nordic links.

YOU may not have had direct experience of Nordic link marketing but you enjoy business development and would relish the opportunity to apply your UK Corporate Marketing expertise to this area.

YOU as part of the Management team, will be given the freedom to develop marketing strategy and the responsibility for the organisation of the credit analysis and marketing support functions.

YOU can offer experience of marketing the full range of commercial banking facilities appropriate to middle market corporates as well as a sound credit background. *Familiarity with capital market products is also desirable.*

If you would like to be considered for this opportunity please contact Susan Milford, Manager, Financial Appointments, quoting reference number CG0540.

Telephone 01 256 5041 (out of hours: 0483 37480)

Management Personnel
Recruitment Selection & Search
10 Finsbury Square, LONDON EC2A 1AD.

MANAGER, COMPLIANCE AND PROCEDURES

City to £40,000+full banking benefits

Our banking client's London Branch has played a prominent role in the development of its international business for more than twenty years. A committed pursuit of new business opportunities has led to its activities spanning a very full range of international banking services. To enable it to stay at the forefront in developing its services to customers, it has decided to strengthen the administrative support currently backing its market activities with the creation of this new appointment.

The Manager, Compliance and Procedures will be responsible for the review, revision and development of all administrative procedures and systems, with responsibility for keeping the Branch aware of all regulatory requirements, developing a Procedures Manual and monitoring its observance, meeting the needs of internal control and reporting to regulatory authorities.

Applicants should be AIBs, with a minimum of 10 years experience of bank accounting/auditing and considerable experience in developing and implementing control procedures. Communication skills and the ability to win acceptance of an innovatory activity which controls as well as supports business activities are pre-requisites. The salary will be negotiable to £40,000, and the package will include an attractive range of benefits.

Please send career details in the first instance to *Mike Blanckenhagen*, naming any City institutions to whom they should not be disclosed, quoting reference T4022.

KPMG Peat Marwick McLintock

Executive Selection and Search
9 Creed Lane, London EC4V 5BR

COLLECTIONS MANAGER

c£20K package+car North London

Mortgage Express continues to forge ahead fast. It has rapidly established itself as a recognised leader in the sector of the financial services market that provides mortgage and mortgage related products.

This continued development has identified a need to strengthen the Management team with a *Collection Manager who, in addition to taking on* full responsibility for the department, can develop and implement systems and techniques to create the most efficient environment for collection activity and produce results to reflect this.

Certainly it calls for extensive mortgage collections experience and a proven track record as a Manager in a progressive mortgage lending operation.

This appointment offers the challenge and *rewards to meet the discerning applicant's career* aspirations within this dynamic company, which is a member of the TSB Group.

Benefits include a cash mortgage subsidy and a non-contributory pension scheme. Pursue your career by sending your C.V. now to:
Adrianne Janes, Personnel Officer,
Mortgage Express,
Endeavour House,
1 Lyonsdown Road,
New Barnet, Herts EN5 1HU.
Telephone: 01-440 8282.

MORTGAGE EXPRESS
Mortgage Express is a UDT Company and a member of the TSB Group

A FRESH START FOR SUCCESSFUL BUSINESS PEOPLE

It takes a very special person to reach the top in one field only to do better elsewhere: but that is just the sort of person Hill Samuel Investment Services is seeking.

If you have a successful business or professional record and are now looking for a new start with the prospect of unlimited earnings, as your own boss, write with CV or phone:

Joyce Pohl,
Hill Samuel Investment Services Limited,
1 Maddox Street, London W1R 9WA.
Telephone: 01-434 4583

TREASURY MANAGEMENT

Halifax, the World's No.1 Building Society is seeking to recruit experienced professionals for its Head Office Treasurers Department based in Halifax.

ASSISTANT TREASURER CAPITAL MARKETS

The Society has already in place wholesale funding facilities in excess of £3,000m and plans to expand its funding and investor base in the international capital markets. The vacancy is for an Assistant Treasurer who will be responsible for the Society's wholesale funding activities in these markets.

Candidates should have a proven record of success in the capital markets and the necessary motivation and initiative to succeed in this challenging post.

TREASURY OFFICE MANAGER

The Treasurers Department is responsible for the day to day management of the Halifax's liquid funds of £5,000m and its wholesale funding programme. The Treasury Office manager will be responsible for the provision of financial and management information to support dealing operations and monitor overall performance.

Candidates should be experienced in the financial management of treasury related activities with the ability to lead and motivate. A professional qualification in the fields of accountancy, banking or corporate treasury would be an advantage.

Both posts carry a full range of benefits including attractive salary, contributory pension scheme, life assurance, BUPA, provision of a car and concessionary mortgage.

To apply in confidence please send a full C.V. to:
Mr D. C. Laughlan, FCIS, FCBSI, General Manager, Personnel and Services, Halifax Building Society, Trinity Road, Halifax HX1 2RG.

HALIFAX
An Equal Opportunity Employer

International Investor Relations

A leading City based company with high quality clients on a global basis seeks an executive with city experience. The rapid expansion of our business creates the need for a further senior executive with the ability to cover financial markets around the world.

The successful candidate is likely to be a graduate with experience in fund management, stockbroking, merchant banking or financial services. A considerable amount of international travel is required so languages will be an advantage.

A high degree of self motivation should be combined with communicating skills and the confidence and maturity to relate to clients at board level. Responsibilities will include the development of global investor relations programmes for new and existing clients and will require a good rapport with fund managers, analysts and stockbrokers.

An attractive performance based remuneration package is offered with the opportunity to share in the company's growth.

Write Box A0709, Financial Times, 10 Cannon Street, London EC4P 4BY.

Senior Manager

Corporate Legal Services

from £40,000 + car City

This is a newly created and challenging role within a leading firm of Chartered Accountants. You will take over the management of a department which provides a company secretarial service to a large portfolio of corporate clients and revitalise it.

Your brief will be to evaluate the existing client base and range of services and develop and implement a business plan to enhance the unit's activities in terms of volume and level of sophistication. The aim is to become the foremost provider of a broad range of legal and secretarial services within five years. Ample resources will be provided—people, technology and space—to enable you to achieve this aim. You will contribute the vision, managerial and entrepreneurial skills necessary to see the project through.

You are a Chartered Secretary or Lawyer with a thorough knowledge of Company Law and company secretarial practice. Probably in your early/mid thirties you will have experience at senior management level and be able to demonstrate a record of successful project management. If some of this experience has been gained within a professional firm it would be an advantage, although this position should not be confused with a traditional Statutory Department Manager's role.

Salary is for discussion and will not be a bar to attracting the right candidate. Success will lead to Partnership within the foreseeable future.

Please write – in confidence – with details of career to date and current salary to Lesley Gifford, ref. B.20275.

MSL Chartered Secretary, 52 Grosvenor Gardens, London SW1W OAW.

MSL Chartered Secretary

INVESTMENT MANAGER

Glasgow Investment Managers is the Investment Management subsidiary of Edinburgh Financial Trust plc. We manage portfolios for Unit Trusts, Pension Funds, Private Clients, a listed Investment Trust and a Life Assurance Company.

As a result of our success in securing new clients we now wish to recruit an Investment Manager to join our team. Applicants should have a good University degree or equivalent and two to three years' appropriate experience in an Investment Management Company, Merchant Bank, Stockbroking Firm or Life Assurance Company.

Experience of making and accounting for investment decisions, the capacity to contribute to the development of our investment thinking and the ability to express ideas clearly are the principal attributes we seek.

After an initial period of familiarisation with Glasgow Investment Managers' approach, the new Manager will be granted specific responsibility for client portfolios. The prospects are outstanding for a person who wishes to participate at an early stage in a successful and growing business.

The candidate selected will receive a competitive salary and attractive non-salary benefits, including the possibility of equity participation.

Applications, together with a full curriculum vitae, should please be made in writing to:–

Juanita Stanley (Ref. IM/FT10)
Investment Director
Glasgow Investment Managers Ltd
29 St Vincent Place (Third Floor)
Glasgow G1 2DR

GLASGOW INVESTMENT MANAGERS LIMITED

Spot Foreign Exchange Traders

Trade the Future with us

We believe that index and currency basket trading is increasingly becoming one of the most important aspects of Spot Foreign Exchange.

If you agree with us and have the necessary experience, particularly in Scandinavian currencies, and would like to be part of a highly motivated and successful team, we would like to hear from you.

Please send a full C.V. to Teresa Andrews, Manager - Personnel

Scandinavian Bank Group
Scandinavian House, 2/6 Cannon Street, London EC4M 6XX
Telephone 01-236 6090

SENIOR LEGAL ADVISER

Channel Tunnel Project

South Coast

Translink Joint Venture, the UK Channel Tunnel Contractor, requires an additional lawyer to join their in-house Legal Department.

Based in Kent and working largely on his/her own initiative, but reporting to Translink's Head of Legal Services, the successful candidate will become quickly involved in all aspects of the Channel Tunnel Project, the largest Construction Venture ever known in the U.K. Whilst experience in the construction industry would be an advantage, emphasis will be placed on sound commercial experience and an ability to deal with a large number of important matters within tight time constraints.

This is a key appointment and it is unlikely that applicants with less than 4 years post qualification experience will be considered.

An attractive salary is offered, reflecting the importance of this position, together with a car and a generous range of benefits including relocation expenses.

Please apply in the first instance with full details to our consultant Andrew Millhouse c/o Media Universal Services, 34-35 Skylines, Limeharbour, Docklands, London E14 9TA. Or telephone 0233 46603.

TML
TRANSMANCHE – LINK
Channel Tunnel Contractors
TRANSLINK J.V. – U.K. Operations

LEASING

Our business is the development and packaging of innovative Leasing and other Asset Finance transactions.

We are seeking additional staff with analytical and business development skills. We can offer a rapid widening of experience in all aspects of the subject and in the market place together with a highly competitive remuneration package.

Applications *should* be addressed to John Lenton, Managing Director, Causeway Finance Limited, 21 Cavendish Place, London, W1M 9DL. Telephone 01-631 3073.

EQUITIES

ANALYSIS & SALES

Our clients require experienced
- Equity Salespeople
- Investment Analysts
- Support Staff

Telephone
DR. ELSPETH DAVIDSON
01-439 1701

SENIOR TRADER

Fluent Soviet speaking salesperson required to join Trading Company specializing in business with USSR to sell into this market in field of chemicals, pharmaceuticals and allied products. Frequent visits to Moscow necessary. Salary negotiable.

CV in confidence to:

Box A0714, Financial Times
10 Cannon Street, London EC4P 4BY

Leveraged Buyouts

A successful US leveraged buyout firm seeks a young professional for its recently established UK and European operation based in London. This is a unique opportunity to be involved early on in the development of a firm which acquires and operates businesses for its own account.

The ideal candidate will have 2-3 years experience with a major consulting, investment banking or accounting firm. His/her responsibilities will include identifying acquisitions, developing financial analysis and business strategy, structuring and securing financing and closing transactions.

Initially compensation will consist of a competitive salary plus substantial bonus and subsequently, for the right person, equity in acquired companies.

Applicants should write to Box A0680, Financial Times, 10 Cannon Street, London EC4P 4BY.

MANAGING DIRECTOR

LLOYD'S MANAGING AND MEMBERS AGENCY

c£35,000 plus Equity Participation, Car and Other Benefits

Atrium Underwriting Ltd is a recently-formed Lloyd's Managing and Members Agent wishing to appoint a high-calibre executive to take a leading part in the development of the Company's present and future activities.

The appointment, which is for a Chartered Accountant in the age range 30-45, will carry with it the responsibility for all aspects of accounting and administration, and the successful candidate must have experience of Lloyd's Managing and Members agencies, and be thoroughly familiar with Lloyd's requirements and procedures.

The commencing salary will be in the region of £35,000 and a car will be provided. It is envisaged that equity participation will follow within six months of appointment.

Please apply in writing, with a full CV, to Mr C. A. Limond at the address below:

ATRIUM UNDERWRITING LTD

Room 928
Lloyds
Lime Street
London EC3M 7DQ

CITY GRADUATES

- Are you thinking of a career move?
- Do you have a good degree?
- Have you worked in Banking or Stockbroking for at least eighteen months?
- Would you like the opportunity to meet two City recruitment specialists for one hour to discuss your next move? (There are no costs involved and meetings are without obligation to proceed further if that is your choice.)
- Our clients are all blue chip names in the City and are seeking high calibre people at every level.
- All replies will be treated with the utmost confidentiality.

If you are interested please telephone John Lord on 01-977 8105 or David Jones on 0444 452209 or send C.V. to:

The City Resourcing Partnership
266 Bishopsgate
London EC2M

CITY PROFESSIONAL ?
SEEKING CHALLENGE ?
SALES ABILITY ?

The Sterling Publishing Group Plc requires three top flight career minded sales executives to work with existing sales team in their Financial Publications Division. With a working knowledge of the City, must have the ability to negotiate at Director level and possess first class telephone manner. Based in Central London you can realistically expect to earn in excess of £30k in your first year. For an interview appointment telephone **Dennis Wood on 724 2888.**

Appointments Wanted

MIDDLE EAST MARKETING AND SALES

International Marketing and Sales director experienced in financial retail products and services with multinationals. MBA from the US. Extensive experience in the Middle East and European Markets. Fluent in Arabic, French, English and Greek. EEC National. Age 30. Seeks challenging senior position with dynamic international company.

please apply to Box [illegible], Financial Times, 10 Cannon Street, London EC4P 4BY.

BANKING IN VIENNA

Executive with fluent German (2 yrs banking exp), for Business Development area of international bank. Based in Vienna, you will be the main link with Australia and the Far East. Excellent prospects. £25,000. Call: **Language Recruitment Services Ltd on 01-387 7622**, or send CV to 46-48 Strode House, Osnaburgh St, NW1 3ND.

TWO YOUNG DEALERS with 2/3 years' experience for European bank. FX Dealer; Spot and Forward, DM. £. Money Market Dealer: Eurocurrency and $ £15-£20,000 p.a.

CREDIT ANALYST Used to working with minimum of supervision. Italian useful, not essential. To £17,000 p.a.

LOANS ADMINISTRATOR for European bank to work as back-up to small team of Credit Analysts. Early-mid 20s. £12-£15,000 p.h.

INTERNATIONAL EQUITIES Experienced people at all levels required. Excellent salaries.

Telephone Shelagh Arneil on 01-583 1661 or send or in confidence to her at asb Recruitment, 50 Fleet Street, London, EC4Y 1BE.

International Appointments

CAPITAL MARKETS GROUP EXECUTIVE

One of the largest banks in the Middle East located in an attractive centre and known for its aggressive marketing stance, is looking for a talented young man, articulate, confident and presentable in his late twenties to manage marketing of syndicated corporate credit facilities.

It is a challenging job which entails:

- management and analysis of our existing commitments to our current clientele,
- development of strategies for expanding prospective clientele,
- identification and assessment of profitable market segments,
- study, analysis and structuring of all types of capital market instruments including syndicated credit facilities, asset swaps, a forfeit and synthetic security transactions.

The ideal candidate should be a graduate with US/UK bank credit training, having a minimum of 2-3 years experience of marketing capital market instruments principally to corporate borrowers with a particular emphasis on arranging and structuring syndicated credit facilities. He should have a strong aptitude for data analysis together with the ability to write up complete credit applications. The ability to negotiate with large corporate and sovereign clients is essential.

Please apply in confidence with a resume and passport size photograph to:-

THE ADVERTISER/GROUP EXECUTIVE
P.O. BOX NO. 1269
DUBAI - UNITED ARAB EMIRATES

Business Orientated Finance Manager

Germany

Blue chip US multinational in the chemical sector with extensive European investment base seeks a business orientated Controller to take charge of all aspects of Financial Management in their German subsidiary. Key aspects of the job include the provision of sound financial advice to the General Manager, directing the budget and capital expenditure processes, leading and developing a major department, ensuring adherence to legal and corporate financial procedures and representing the Company to external agencies.

Suitable candidates will speak fluent German and English and have at least seven years broad based financial experience, probably with other US subsidiaries, providing a good professional knowledge of US accounting practice. Equally important, you will be a broad based businessman, ideally with a business degree, a strong man manager, and an excellent communicator with the judgement and maturity to reconcile corporate and field priorities.

We offer international development in a highly profitable company with state of the art financial practices. We have a track record of promoting our Controllers to General Management as well as Corporate Financial Management. Terms and Conditions will reflect the importance of this position.

To apply, please send a full CV with details of current salary, to Mr Mike Swaine at the address below. Please state clearly if there are any companies to which your CV should not be forwarded, as replies will be sent direct to our client for consideration.

B&B

197 Knightsbridge, London SW7 1RP.

WARDLEY INVESTMENT SERVICES LTD.

INVESTMENT MANAGER

(HONG KONG)

To meet the demands of our rapid growth, we are seeking to fill several newly created investment management positions in our Hong Kong Office.

Candidates will probably be aged 25-30 and have had hands-on experience in the management of funds for a minimum of 5 years. More senior candidates will also be viewed favourably. Demonstrable interest in the Far East is a prerequisite. Responsibilities will involve investment decision-making in a specific market or industry sector.

Our environment is professional, creative and dynamic, and provides excellent career prospects in a global investment management group which, in addition to its principal subsidiary in Hong Kong now includes investment management operations and representative offices in all major centres.

An attractive salary, expatriate benefits and a performance related incentive plan form the remuneration package.

Please forward your curriculum vitae including present salary to:— **Mrs. Helen Davies, Personnel Officer, Wardley Investment Services International Ltd., 99 Bishopsgate, London EC2P 2LA.**

member: HongkongBank group

CHIEF TECHNICAL ANALYST
Foreign Exchange

The Chief Technical Analyst in London will coordinate content of a new Telerate-based Foreign Exchange Advisory Service with the economic staff, supervise exchange-traded futures Technical Analyst located in New York, and eventually expand scope of authority to include other financial centers. Necessary skills include extreme market sensitivity, oral and written communications skills, the ability to react quickly in a fast-paced environment, and a strong understanding of technical analytical techniques such as trend indicators and charting.

Familiarity with a broad range of currencies, knowledge of the cash/forward/futures market, and a wide range of market contacts are considered essential. Large bank dealing room experience will be a plus.

This senior level appointment offers attractive compensation and substantial scope for advancement within MCM, a Xerox Financial Services Co. specializing in fixed income and currency research.

Please submit resume to:
Joseph E. Plocek, Senior Vice President
McCarthy, Crisanti & Maffei, Inc.
71 Broadway, New York, N.Y. 10006 U.S.A.
Tel: (212) 509-5800
Fax: (212) 509-8389
Telex: 423720 MCM UI

MCM

WELL REPUTED GULF BANK SEEKS A GENERAL MANAGER

Applications for this position are invited from candidates with a minimum of 20-25 years of diversified commercial banking experience with an international bank. This experience should include a significant general management position in the Middle East/Africa or similar banking environment.

The successful candidate—who could be a recent retiree with the requisite experience—must be available to take up this appointment by March 1988 and be fully prepared to accept a three year contractual assignment in the Gulf area. Compensation package with a tax free base salary of approximately Rials 275,000/- to Rials 300,000/- (£45,000/- to £50,000/-) plus liberal fringe benefits commensurate with the successful candidate's experience and qualifications and accepted employment practice in this location will be offered.

Please send Curriculum Vitae, preferably with recent passport photograph, in strictest confidence to Box A0719, Financial Times, 10 Cannon Street, London, EC4P 4BY.

Investment banking opportunities in Bermuda.

The Bank of Bermuda is Bermuda's largest bank with over $3 billion in assets and 1,300 employees worldwide. We provide a full range of investment services to local and international clients through our Head Office in Bermuda and overseas branches in London, Hong Kong, Guernsey and New York. We offer a sophisticated, international banking environment in a premier resort setting and a snow-free, pollution-free, tax-free climate. Due to the increased volume of our international business, several new career opportunities now exist within the investment department.

Global Custody, Securities Settlement Supervisor

This person will be responsible for a team of administrators in the management of our international network of over 30 security depositories. He or she will manage asset and cash positions at each of our worldwide custodians.

We deal actively in the Far East (including Australia), Europe and North America. Applicants should be conversant with the practices and procedures in each of these regions and familiar with the operation of Euroclear, DTC and other automated settlements systems.

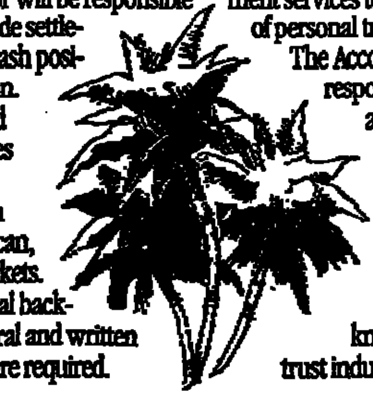
Ability to manage staff and perform associated management duties in a professional manner is essential. A business related degree and 5 years of managerial experience in the security settlement area are also required.

Global Custody, Settlement Administrators

The Administrator will be responsible for co-ordinating all trade settlements and managing cash positions for a specific region.

Applicants should have 3-5 years securities industry experience and specific expertise in either the North American, European or Asian markets.

A good educational background and excellent oral and written communication skills are required.



Portfolio Management, Trust Section, Account Administrators

The Trust Section of Portfolio Management provides international investment services to our prestigious roster of personal trust clients.

The Account Administrators are responsible for providing a comprehensive investment service within the parameters of our investment policy and trustee agreements.

The successful candidate will have a sound knowledge of the investment/trust industry with at least 5 years experience in investment management and account administration coupled with a university degree, preferably in business. The position requires a well organized professional with proven communication and marketing skills. The ability to travel is also essential.

Please submit a detailed resume including salary requirements to:
Nea Roloff
Personnel Department
The Bank of Bermuda
#6 Front St.,
Hamilton, HM 11
BERMUDA
TEL #809-295-4000 (ext. 3320)
FAX #809-292-3814

A competitive and comprehensive benefits package is provided for all positions. Interviews will be conducted in Canada, Boston and the U.K. during the month of November. If your spouse will be seeking employment in Bermuda please include his/her resume.

The Bank of Bermuda Limited.

Appointments Wanted

PRACTICAL EXECUTIVE

45 yrs financial background MBA ex VP extensive entrepreneurial and corporate experience in several business sectors throughout Europe, Comecon, US. English mother tongue, German, French, other languages. Currently based in W. Germany, willing to travel. Is looking for demanding new challenges within organisation or as consultant. Has capital & would consider smaller companies on profit sharing/equity basis. Highest integrity and complete confidentiality assured.

Write Box A0715, Financial Times, 10, Cannon Street, London, EC4P 4BY.

UK NEWS - CBI CONFERENCE

City 'not responsible for short-term performance pressures'

Delegates back task force report

Conference reports by **Hazel Duffy, Ralph Atkins and Lisa Wood**

INDUSTRIALISTS and members of the City gave near-unanimous support to a CBI task force report, published last month, which investigated relations between the City and industry.

The report, described by only one delegate as sometimes complacent, had concluded that accusations of the City being responsible for short-term performance pressures on companies were unfounded.

However, the debate widened to reveal tensions within the CBI over the impact on the economy of the slump in share prices over the last few weeks.

An appeal was made by several speakers for the US Government to take action over its twin deficits. Mr John Quinton, of Barclays Bank, said: "The fall in prices was a message to governments, particularly in the US, that action needs to be taken by them if we are to avoid a decline or a recession which will damage us all." He described the fall as desirable because it might hasten this action being taken.

Mr Brian Corby, of Prudential Corporation, and Mr Christopher Brinton, of Brintons, endorsed the message. Mr Brinton said the substantial business recovery in the West Midlands could be threatened by the twin deficits in the US.

Mr Norman Record, of C & J Clark, made a direct criticism of the CBI leadership when, in discussing the economic consequences of the market slump, he said: "This is not talking ourselves into recession. It is facing up to reality."

He said the crash had serious consequences for the world, with the likely outcome a significent slowdown in growth or a recession.

Mr David Gent, of the Motor Agents Association, used the slump to illustrate his criticisms of short-term trading by people using money they did not have. He said: "Savings in pension schemes will be damaged by stock market naivety. The City must demonstrate that its dealings are no longer the preserve of a privileged few trying to make a fast buck, but rather the responsible management of other peoples'savings."

He proposed, unsucessfully, that the resolution supporting the task force report be withdrawn to add a chapter on the events of the last few weeks.

Mr Roland Long, of Roland Long, made the only mention during the conference of speculation that the Government is to increase electricity prices, a move he said was in the interests of the City.

Only a couple of speakers made direct criticism of the City in the context of the task force report. Mr Paul Nicholson, of Vaux, asked why the limit on disclosure of share ownership in a company should be set as high as five per cent.

Mr Michael Rogerson, of Grant Thornton, spoke on the need for improved guidelines on merger, acquisition and goodwill accounting. Mr Ronald Utiger, chairman of the TI group and a member of the task force, said these areas were being investigated by the task force.

Nickson attacks plan to raise power prices

GOVERNMENT plans to increase electricity prices were attacked by Mr David Nickson, president of the CBI. They would hit investment by industry, he said at the end of the conference yesterday.

Speaking after his closing speech, Sir David said he was "very concerned." Electricity costs in the UK were already higher than in many competing countries. Further increases would be particularly damaging to industries such as steel and chemicals.

In his speech, which was generally upbeat and confident, Sir David stressed the effects of an increasing cost burden on investment by industry.

He called for a reform of the tax system, including a simplification of both incomes and capital gains tax. "It is vital that business retains more of its profits if it is to invest at a level to be internationally competitive," he said.

Taxation affected the location, profitability, training expenditure, research and development and investment spending of companies. An unfair tax level compared with other countries would restrict the process of change that is essential just to keep pace.

"Tax revenues buoyant from business taxation should not be used to finance consumer spending at the expense of investment. Unless we invest we will fall back in that world-class race," he said.

Delegates call for industrial strategy

BRITAIN needs an industrial stragegy based on investment in people and technology, the CBI decided yesterday. But it stopped short of detailing policies governments should persue.

Delegates voted unanimously for a motion calling for the tax burden on business to be cut to encourage investment. There was anger at the ending of tax allowances on capital spending and at the failure of the Department of Trade and Industry to lobby successfully on behalf of companies.

The motion said investment is "the key to maintaining forward momentum of the economy." However, there was no consensus among speakers about the role government should play in reviving industry and delegates were anxious to distance themselves from any hint of state planning or failed industrial policies of the 1960s and 70s.

Sir Trevor Holdsworth, chairman of GKN and deputy-president of the CBI, said the Government should demonstrate that it realises the effect its policies has on the wealth-creating abilities of companies.

"Modern government, even of a non-interventionist kind, has to take a multitude of decisions which directly or indirectly bear upon the lives of ordinary businessmen," he said.

The Government's job should be to remove obstacles to industrial growth, cut business overheads and seek to level unfair advantages enjoyed by competitors.

"Clearly, none of us wants the concept of indicative national planning, which brings us into the area of the command economies. We know that does not work," he said. But he added that there is a big difference between an industrial planning strategy and planning.

Sir Trevor said while industry and commerce creates national income, it is the Government which distributes it. It is right for the CBI to question whether it follows a coherent industrial policy.

"Government is rather like the corporate headquarters of a large business: an overhead which needs constant management attention if it is not to become too detached and remote from the business it serves, nor too damaging by interference, second-guessing, bureacratic, stifling, and expensive," he said.

Dr James McFarlane, Engineering Employers' Federation, said: "The term industrial strategy became devalued in the 1960s and 70s. But the truth is we never had one."

Policies then had been political not industrial. Their failure should not stop the CBI adopting a strategy that could help Britain in the way they had helped other countries.

It would mean taking a selective approach to build on the UK's strengths, rather than acting like "the general whose only strategy is to advance on all fronts," he said.

"I do not belive for one moment that the Japanese dominance of their chosen fields came about simply from the operation of free markets," he said.

Sir William Barlow, BICC, criticised the Department of Trade and Industry for not standing up for business against the Treasury and other government departments. The interests of companies were being neglected because there is no clear channels for talking with Government he said.

"It is not really effective for us to be tackling all the individual ministries as individual companies," he told delegates.

Hazel Duffy sums up the mood of the discussions

High hopes as industry leaders march forward into the past

HAS THE Confederation of British Industry adapted to today's world? Its leaders appear to think so, judging from the numerous references from the platform this week to the fundamental good health that industry now enjoys.

An observer could have been forgiven, however, for thinking that the CBI was still preoccupied with the world of yesterday.

Too often the hierarchy appeared to be calling on business actually to do the things it has been talking about doing for years. There was the need to invest more, above all in training, to become more involved with what is going on in schools and the inner cities, and to recognise the importance of design in industry.

Japan, West Germany and France continued to be cited frequently by speakers as countries which were much clearer about their direction. But delegates were not led into any discussion as to why German industrialists invest so much more in training, for instance, or why Japanese industry is so much more successful at establishing a firm hold on international markets.

The leadership's desire not to upset any applecarts by exploring contentious issues further was evident in the most important debate of the conference, on the City and industry, in which the CBI and City establishments were at pains to gain endorsement for the recent report of their Task Force.

That report, valuable in its analysis of the gaps between the two sectors but notably short on firm recommendations other than the need for the two to communicate more, was published just days before the stock markets tumbled.

Most speakers, however, chose to ignore recent events. Mr Brian Corby, group chief executive of the Prudential, and a member of the Task Force, admitted that the debate - which was directed towards long-term solutions - was "taking place against a rather unfortunate background".

A few representatives from industry were moved to register their disapproval both of what has happened in the markets and to warn of the likely consequences for the British economy and industry. In a direct reference to the plea from Mr John Banham, CBI director general, at the opening of the conference, Mr Norman Record, C & J Clark, said: "This is not talking ourselves into a recession. It is facing up to reality."

And so the conference was thrust, albeit briefly, into the more turbulent side of today's world.

Mr Ron Utiger, Tube Investments, which called off a bid for a US company in the light of the Wall Street collapse, smoothed the slight choppiness of the waters by pronouncing in his summing up that, while equity issues will be more difficult, the likelihood of lower interest rates, high levels of liquidity and the much stronger position of British industry generally, should put the fears into perspective.

Then there was the hornet's nest for the CBI of trying to define an acceptable industrial strategy. What does the CBI mean by it? Does Britain need some sort of government-led strategy?

Sir Trevor Holdsworth, chairman of GKN and deputy-president, had a go: "Strategy is knowing what to do when there is nothing to do. Planning is knowing what to do when there is something to do. They should not be confused."

Government had its role in the public sector. Perhaps it should also be invited to participate in "our industrial strategy" which he defined as "removing obstacles, reducing overheads, levelling the playing field at home and abroad, supporting and encouraging."

Sir Trevor's was a gallant effort, but it could not really have satisfied anybody. Calls from the floor for a stronger Department of Trade and Industry put a little flesh on the philosophy, and there were pleas for partnership between government, finance and industry. But the debate displayed all the familiar CBI tones of wanting to be left alone by government and yet wanting closer co-operation.

The CBI conference is not policy-making, and should perhaps be judged simply in the light of its being an opportunity for the often reticent voice of individual industrialists to be heard. Glasgow, however, even more than previous conferences, was more like an escape from the real world.

Call for devolved economic powers

MR JOHN SMITH, Labour's shadow Trade Secretary, yesterday called for more devolved economic powers for England and Wales as well as Scotland.

In an address televised from the House of Commons to the CBI luncheon meeting in Glasgow, Mr Smith argued for decentralised government to prevent the concentration of power and wealth in the south-east and to prevent a further divide between north and south.

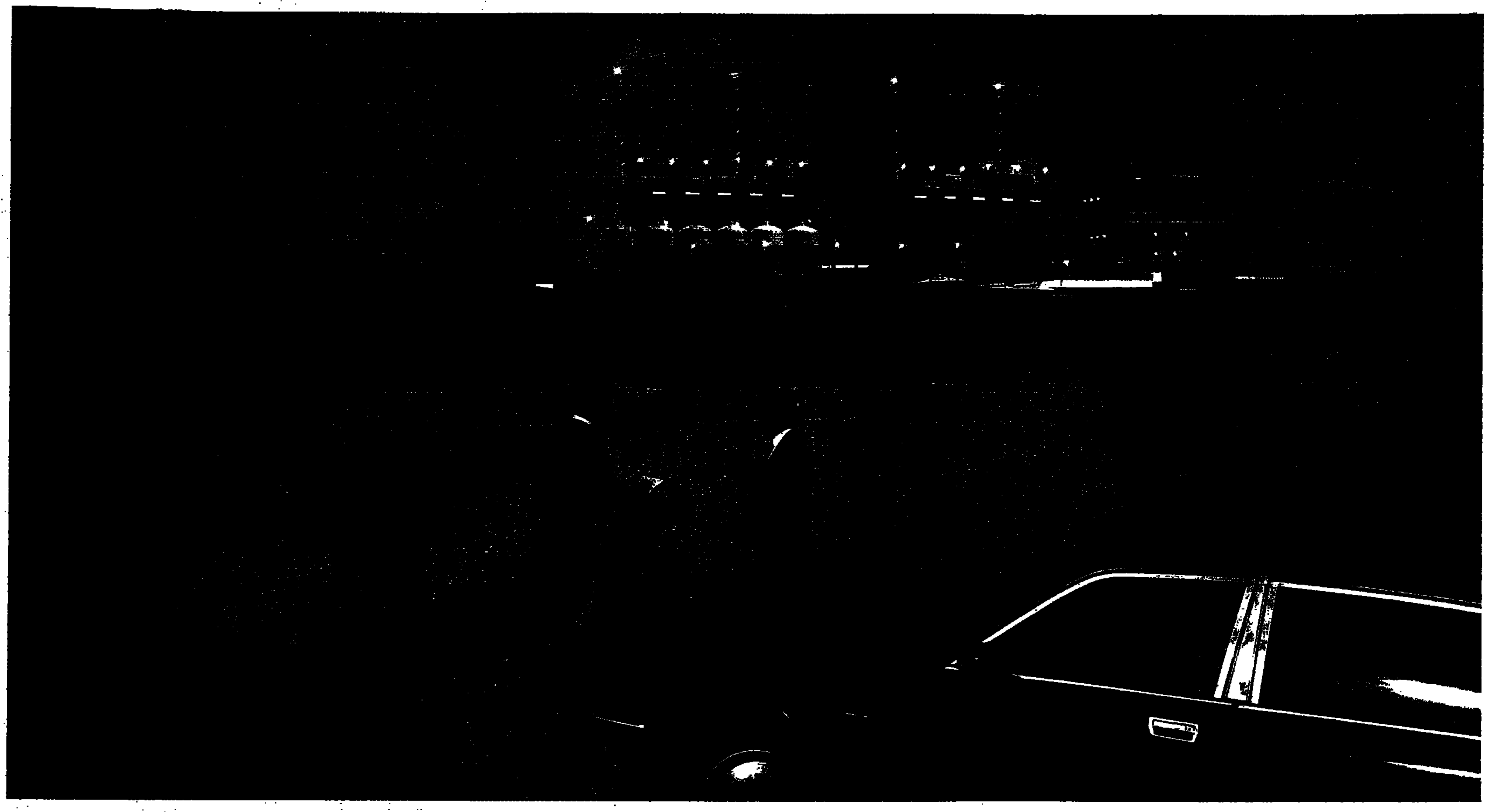
Mr Smith used Scotland as an example of devolved economic power which could be emulated elsewhere in the UK.

Lobbying takes the centre stage

'THESE are not party conferences,' Mr John Banham, director general, said at a post-conference briefing. 'There's a lot goes on behind the headlines,' said David Nickson, president.

This reflects the tendency for conferences to become occasions for discreet lobbying between delegates and CBI leaders. 'We don't come to learn, but to put ideas to key delegates,' confided a participant from the City.

Observers this year came from the Prime Minister's policy unit and there was a bevy of permanent secretaries from Whitehall - which explains why Glasgow restaurants did rather well on Monday night, swelled by London-sized expense accounts.



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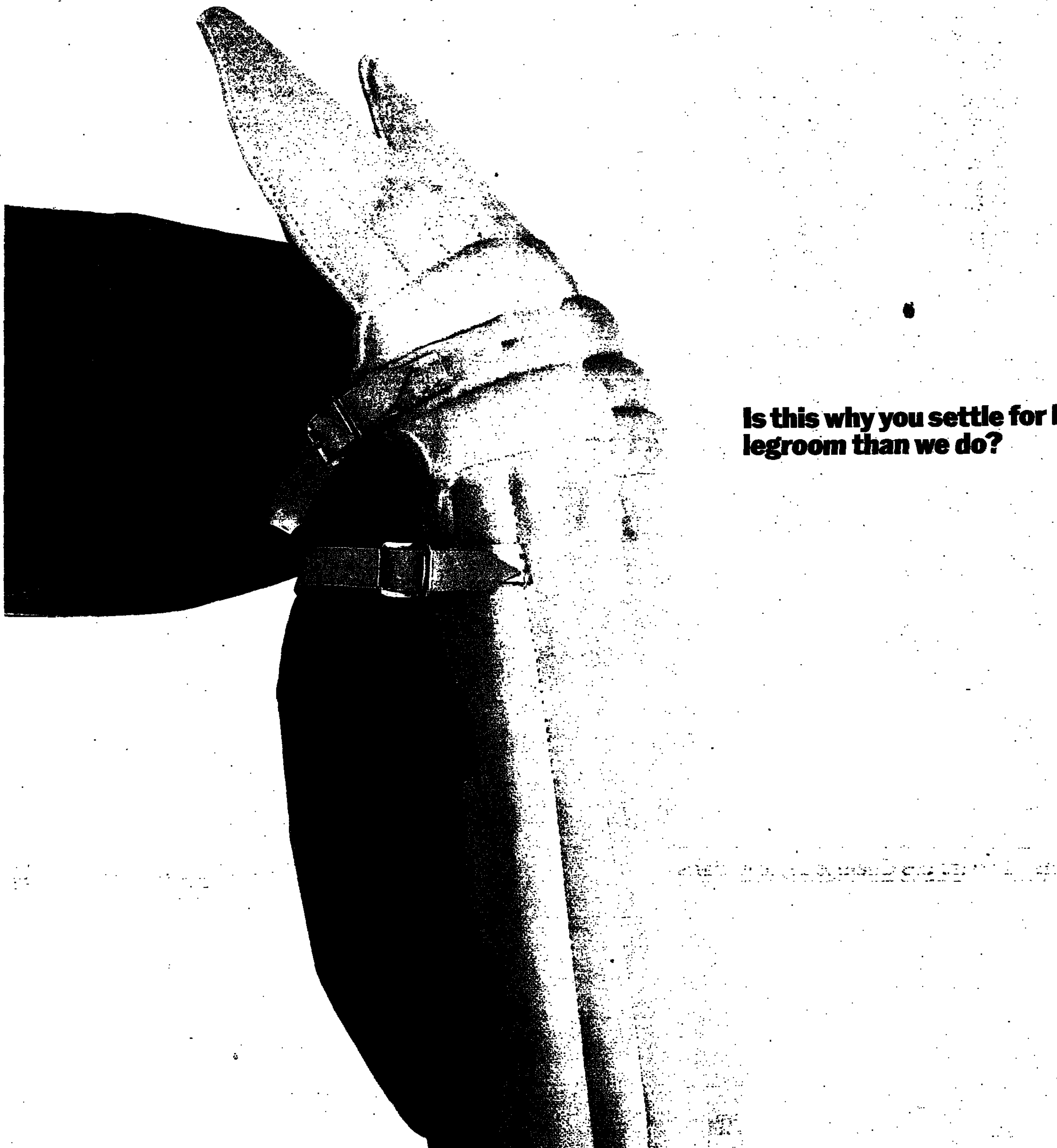

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SAS

The Businessman's Airline

Television/Christopher Dunkley

Glad to be a member of the human race

Every now and then television throws up a programme which, though it sounds highly specialised, perhaps arcane, turns out to be utterly charming and compulsive viewing even for those who thought they had little interest in the subject. BBC2 has an entire series of this sort running at present, and Channel 4's two-hour documentary on Saturday, *Baka - People Of The Rainforest* was another classic example. The quality of this programme was no surprise since it was produced and photographed by Phil Agland, the man responsible for *Siarau: Tidal Forest*, a magnificent wildlife film to which I had the pleasure of helping award the top prize in the Wildscreen Festival.

Baka was slightly different in that, while it showed a lot of animal life, it concentrated on human beings: the pygmies of Cameroon. Many other television programmes, notably *Disappearing World*, have brought us accounts of life among "primitive" peoples, made by dedicated producers who have lived with their subjects, but nobody has ever managed to convey the character of individuals as Agland did. True, he had an unfair advantage with four-year-old Ali, a large-eyed, straight-faced comedian who leaves Shirley Temple in the shade when it comes to screen presence. But he also captured and conveyed the essence of Likano, Ali's devoted father who is clearly a bit of a hypochondriac, and, above all, his mother, Deni, whose sense of humour emerged in a way quite unique for a programme of this sort. *Baka* made you glad to be a member of the human race.

*

The BBC2 series is *The Victorian Kitchen Garden* which tonight reaches the eighth of 13 episodes. There is always satisfaction in seeing somebody do something well, whether it is carp fishing or carpentry, and gardener Harry Dobson talks and acts as though he had actually spent his entire life in a Victorian garden. But there is more to it than that. The very objects involved, the tools and the wonderful gearing mechanisms for ventilating the vast greenhouses, are fascinating, and the occasional injections of historical fact can be show stoppers. Last week's programme, for instance, first showed how the brick walls around Victorian gardens really do act like night-storage heaters, and then revealed one estate where miles of hot-air ducts had been built into the walls mainly to help ripen the family's exotic fruit. It is as engrossing as that series 10 years ago, *Living In The Past*, which showed people attempting to lead an iron age existence.

*

The opening episode of Paul Hamann's verite series on BBC2, *The Duty Men*, contained impressive footage of a drug smuggler attempting to get through customs, but the confusion over the precise location of his suitcase suggested the need for a voice-over. Producers invariably seem to feel that the only suitable accompaniment to fly-on-the-wall film is fly-in-the-air sound, but the next night proved that if you insist on being so purist you have to stretch your programme to 105 minutes in order to make sense, and even then the viewer will sometimes be left in the dark. Why, for instance, did the customs men want video of the smugglers *not* associating at the airport? And why did a voice in Sydney ask "Is this customs guy good?" Was he not in the know? On occasions such as this a few well chosen words of programme commentary can be worth a thousand murky pictures to the viewer.

*

As soon as the Broadcasting Standards Council is set up I intend to bang in a complaint about sex on television: the standard is so abysmally low. When did you last see a really good erotic programme? Indeed, when did you last see a really sexy programme of any description? Of course, there are those dreary discussion series in which sex is treated as a collection of problems, with mechanistic advice spooned out by elderly people seated in oatmeal armchairs. And there is the occasional shot of a hunky-chunky male torso, or a lady in silk underwear, on *Dallasty* - television's version of Page 3.

But where is television's version of Ovid? Television's version of Nicholas Roeg's movies? Throughout the ages popular culture has contained plenty of good, strong, sex. Sex is one of the most fascinating subjects on earth, yet the only people who are regularly acknowledged by television to enjoy sex are homosexuals, and even they have to turn to Channel 4 and wait till late at night. What about heterosexuals who like sex? What has happened to our programmes?

Yusa, the village matriarch, feeding a non-pygmy villager with a concoction to cure her infertility in "Baka - People of the Rainforest"

One of the answers is that the bizarre Whitehouse/feminist axis seems to have fooled the broadcasters into believing that sex is a synonym for violence. Another answer is that television is run by men whose primary interests are news and money, and not by dramatists or showbusiness types in whom appreciation of sex appears to be much stronger. Now that television runs right through the night and most of us have VCRs there is no excuse for the total absence of good sexy programmes.

*

One of the most heartening programmes for a long time was Nicholas Humphrey's *Is There Anybody There* on Channel 4 which gently indicated the possible explanations for such "supernatural" occurrences as the Knock "miracle," the Enfield poltergeist, and one of the Norfolk flying saucers. Remembering the popularity of astrology, palmistry and so forth, one left the programme with two wishes: that Humphrey had been more decisive in his debunking, and that the programme could become a regular series.

*

BBC2's new monthly science magazine *Antenna* appears to be approaching its subject at about the same level as the Daily Mail or *Daily Express*. It is presented by a man named Louis Wolpert (with an odd residual accent - South African?) who seems to have been told that Magnus Pyke was very successful in this area, and he waved his arms about a lot. Thus for the introduction to an item about growth hormone, Wolpert is placed in front of a gymnasium full of children and permitted to wave his arms about.

The programme is bitty, in danger of superficiality (the item on artificial intellegence could easily have filled 50 minutes if treated properly) and - in the case of the growth hormone item - verging on the sensational. So long as *Horizon* stays with us, none of that matters particularly...except for a gut feeling that this is the direction in which too much of public service broadcasting is now travelling.

*

The previously excellent *Thinking Aloud* returned to BBC2 with a programme which asked "Must all revolutions devour their children?" but noticeably failed to offer anything like an answer. Uncharacteristically Michael Ignatieff allowed Paul Foot - champion of socialist revolution - to keep on pointing to the carnage of the First World War when asked about deaths resulting from the Russian revolution, as though they were the only two answers to a single question, or as though two wrongs made a right.

There was one intriguing moment: Norman Stone attributed the coining of the phrase "third world" to Mussolini. Since no reference book I know gives an origin for the phrase it would be interesting to have the attribution verified with documentary evidence.

*

There is an old gag about a man in a restaurant who points at his plate and says to the waiter "What on earth's this?" He receives the reply "It's bean soup, sir," and the punchline is "It may have been soup once, but what it it *now*? " Knowing this old chestnut you could predict the chorus which rises in the Dunkley household every time Martyn Lewis announces at 9.30 on BBC1 "This has been the *Nine O'Clock News*." Up goes the shout "It may have been once, but what is it now?" Goodness knows why Lewis uses this contorted and antique formulation rather than "That was the *Nine O'Clock News*" or simply "Good night."

The Importance of Being Earnest/Whitehall

Michael Coveney

There is a joke here somewhere at the Whitehall Theatre.

Algie's Half Moon Street flat and the Hertfordshire garden are transported to the transvestite suburbia of Hinge and Bracket. A living room performance of the play is announced. Wilde flowers among the chintzy lampshades and floral curtains of Stackton Tressell.

There are odd moments to savour in this Pirandellian conceit, and they are mainly derived from the predictably barking and outlandish Lady Bracknell of Dame Hilda (Patrick Fyffe). But Lou Stein's production, having intelligently realised that it is about time Hinge and Bracket varied the act and commandeered new material, blows a great opportunity to let rip with the venomous esprit of a brand new *Tonight We Improvise*. This event is only a taste of what might have been.

We end up with little more than an indifferently performed version of a great comedy that has only just been given the full traditional works at the Royalty. The framing structure - actresses delayed over another lost handbag at Victoria Station while the gardener potters around with plants and props in the living room - is disastrously weak. Hinge and Bracket are cast as Bracknell and Prism and double those roles, untouched by panic, with Cecily and Gwendolen.

But why are we in their living room in the first place? And girl talk becomes boring as a pretext for Mr Fyffe's monotonously simpering Jeannette McDonald act (with Bette Davis insert) even if he is glowering with rage at Gwendolen's yellow garden dress. The tea scene is prefaced with a bitchy exchange over brown tablets and the duo persist in their weakness for smutty innuendo by puckering features on the news that Miss Prism has drawn her metaphor from fruits. (Hinge and Bracket used to be so *charming*.)

More ribaldry, if not smut, might have been welcome. You glimpse the possibilities when the house is raked for a volunteer Chasuble ("Anybody done it with the scouts or in rep?"). Once the banana-nosed Fred Evans has answered the call, we relapse into the play, which has no chance of surviving this persistent casual interference. Nor does Mr Evans make anything of his newness to the role.

There have been interesting, radical attempts to wrest Bracknell from Edith Evans, notably Irene Handl's fluttering Germanic emigre and Judi Dench's touching, sexually disappointed mother and consort. Dame Hilda starts off on the Martita Hunt grand dame furrow so inventively ploughed by Jonathan Hyde at the Glasgow Citizens some years ago, but ends up in cheap drag act imitation of the Evans expostulations with the added tic of an interrogatory left eye squint. With a swept back wig and fantastic Edwardian costume creations in cerise and livid green (designed by Norman Coates) she looks the part and more or less leaves it at that.

Dame Hilda deals in set mannerism, rocking dumbfoundedly on her heels or bassly neighing at her misted lorgnettes. Fresher grace notes surprisingly emanate from Dr Evadne (George Logan) as an ingratiating Prism and assertively willowy Gwendolen. The rubicund Chubby Oates deals merrily with Lane and Merriman, Simon Dutton and Robin Kermode just about adequately, no more, with John and Algie.

Pub Bombers/Village, Cricklewood

Claire Armitstead

The newly refurbished theatre in the centre of Cricklewood's Production Village leisure complex makes a timely reappearance in the month of the Birmingham pub bombing appeal, with a play that not so much points as jabs a finger at the process of arrest, detention, and trial that led to the convictions.

James O'Brien's *Pub Bombers* uses the angry rhythms of punk to punch home its case for the innocence of the six men convicted of 126 charges arising from the bombings, which killed 21 people in November, 1974.

From the moment the lights go up on a decapitated animal carcase suspended by chains between ceiling and floor, the message is rammed home that this is angry theatre, which is not afraid to back its arguments with images of the most unequivocal kind.

The six white-faced performers, identically dressed, surge to microphones at the front of the stage to become choric figures who recite their grievances in rhymed couplets, or retreat to the back to enact vicious tableaux of interrogation and capitulation. The rhymes are not always easy on the ear, but their jarring merely adds to the sense of cacophany arising from the alleged miscarriage of justice.

The piece is forcefully directed by Mr O'Brien, who also performs, at a decibal level that tested the technical resources of the discrepantly comfortable 100-seater theatre on opening night. It uses strobe lighting to push home the urgency of its message and a punk chant to electric guitar accompaniment to fill out the anger, allowing the end of the play to be engulfed in a puff of smoke in the swirls of which a barely discernible figure is raised on a cross. There are moments all through when clarity is sacrificed to style, and to a certain hestitancy in performance, attributable, no doubt, to first-night nerves, but at this point the theatricality of the piece seems to lose contact with its subject: if I read the rest of the play correctly, Christ had precious little to do with either side. The final impression is of hysteria overpowering the arguments.

Angela Hewitt/Wigmore Hall

Max Loppert

The Canadian pianist Angela Hewitt won the 1985 Toronto Bach Competition, and soon afterwards presented herself to London as a Bach pianist of uncommon stamp. Miss Hewitt's latest venture here is a Wigmore Hall Ravel cycle - two concerts of the complete piano music, to be followed by a two-piano/four-hand Ravel recital with the Japanese pianist Akiko Ebi.

At the first of these, on Monday, Miss Hewitt produced Ravel piano playing of rare quality. She has not yet caught on in London, and there were many unoccupied seats; one simply felt sorry for the piano-lovers who had made the misjudgment of denying themselves such a choice occasion. Fine definition of line, wide colour range (never indulged for its own sake), and an effortlessly poised balance of parts were characteristics that marked the whole of her first Ravel programme.

Yet perhaps the outstanding feature of her playing was its splendidly sharp-honed rhythmic sense. A good Bach pianist needs it, of course, but the zestful pulse of her opening group of three early pieces, *Menuet antique*, *Serenade grotesque*, and *Jeux d'eau*, announced a Ravel pianist with all the right ideas about focussing his musical invention, and with none of that languorous, hazed outline that passes for "poetry" in some quarters. Her reading of the *Valses nobles et sentimentales* was real poetry. A sure command of waltz metre and accent - which is, after all, a gift of high subtlety and sophistication - underlay it, and so the hesitations, the meditations, the inflections of pace and sudden spurts of energy, were all held on a taut thread of vital imaginative understanding.

It was the same with a magical *Sonatine* after the interval: the work was set in scale with a quite wonderful grasp of its formal outlines, and with a quite remarkable combination of rhythmic energy (which made the last movement the work's true, proper climax) and tact. I had only the slightest doubts about the first two paragraphs of her closing *Gaspard de la nuit* - daringly slow of pace and, by comparison with the evening's earlier performances, not fully absorbed and digested in the imagination. But "Scarbo," again ideally in scale with the pianist's gifts, was a virtuoso feat - not just in the delivery of the notes but in the total grasp of their poetic purpose.

Homage to Lifar/Theatre des Champs Elysees, Paris

Clement Crisp

The Paris International Dance Festival celebrates its twenty-fifth anniversary this year with suitably grand programming: The Kirov Ballet will appear for two months; the Royal Danish Ballet, and the London Festival Ballet with Makarova, are imminent; and as an opening fanfare last week, the Ballet Theatre Francais from Nancy offered a Lifar homage.

Serge Lifar died last December, and it is fitting that the Festival should pay tribute to the man who brought ballet back to life in Paris and led it to greatness. The Nancy troupe has for some years preserved Lifar choreographies in its repertory; their version of *Aubade* is excellent, and the present homage, which I saw on Saturday night, features the company's stagings of *Suite en blanc* and *Phedre* with the acquisition of the *Romeo and Juliet* duet and an important revival of *Istar*.

The opening *Suite en blanc* is one of Lifar's greatest creations, and among the finest French ballets of this century. An exercise in plotless academic dance, inspired by the glories of Lalo's *Namouna* - can no-one revive the entire score to performance? It is a masterpiece of its kind - Lifar made the ballet during the darkest war years, a banner proclaiming the excellence of a French art and of its artists in the face of terrible national suffering. Lifar makes the liveliest response to the bold rhythmic drive of his music, the choreography an ideal illustration of Lifar's individual style, with its charactertistic curved pose of arms bracketing the body; long extensions of the limbs in low arabesque; the torso exquisitely posed with an arm upraised as if offering a tribute to the skies.

As variation succeeds transcendental variation, we comprehend how superb technique must be allied to superbly assured manner. The BTF dancers do very decently in the main, notably Sophie Marquet with Didier Chazeau and Gilles Reichert in the first trio, and Adeline Charpentier with Philippe Anota in the ecstatic *adage*. Exceptional was Patrick Dupond's account of the Mazurka, through which he dashed in splendour: his presence as guest artist foreshadows his appointment as the new Director of the company. *Suite en blanc* is an unfailingly exhilarating piece, and it was intriguing on this occasion to see its neo-classic attitudes within the singularly apt setting of the Champs Elysees' ravishing auditorium.

There followed the *Romeo and Juliet* duet which is set to Chaikovsky's fantasy overture. It uses an uninflected classic language and relies, as did many Lifar ballets, upon the emotional power of its interpreters to galvanise the action. Patrick Dupond, who is a more considerable actor than his many virtuoso roles allow us to see, is an ardent lover, an arrow-fast fighter, as Romeo; Francoise Legree, *etoile* at the Opera, was a guest Juliet of delicate line and no less delicate expression. With them, the drama lived touchingly, dance and music in poetic accord. (The view that Lifar was "unmusical" as a creator, expressed by certain American commentators, is not acceptable to anyone who has seen a proper sampling of his work. His was an understanding different from those neat little packets of music and dance favoured by these observers, but Lifar's ballets always provide a telling reflection of the score.)

Istar might be thought to provide certain musical problems, for D'Indy's ravishing sonorities are not immediately evocative of movement, but the choreograoher solves them. The revival of this celebrated solo is important. Created by Lifar in 1941, thirty years after D'Indy conceived it for the beautiful if limited Trouhanova, it is a virtuoso study that brought the young Yvette Chauvire to fame. Now Mme Chauvire has restaged it for Isabelle Guerin, *etoile* at the Opera, and the beautiful Mlle Guerin provides all the technical resource and and luscious style to make us believe once again in the Assyrian goddess descending to the nether regions to deliver a captive hero, in the process yielding up her veilings to the seven guardians of the gates of hell. Elegant, dramatically alert, Mlle Guerin is an excellent advocate for this mysteriously effective curiosity.

The *Phedre* that closed the evening was nowhere as convincing, even with Marcia Haydee ablaze at its heart. Problems reside both in the Auric score, which substitutes sound for fury, and in Cocteau's dreadfully dated design of leotards in basic colours and mad cotton-wool wigs. Lifar's hieratic choreography needs to be danced full out by artists more assured than the present BTF cast. The staging partakes of ritual, and only Haydee, nobled in the queen's black and red draperies and tremendous, makes sense of the action. Much of the rest goes for nothing, and seems even risible. If the ballet is to survive - and it has been irradiated by such stars as Toumanova, Vyrubova and, most recently, Plisetskaya - it requires some editing of its text, and the strongest casting of all its roles.

As a note in passing, I record that the Paris Opera will also stage a Lifar tribute in February next year, with *Les Noces Fantastiques* and *Icare* scheduled to join *Suite en blanc*. The Lifar inheritance is once again being rightly honoured as the bedrock of French ballet's present excellence.

Whitbread Prize category winners announced

The category winners shortlist for the 1987 Whitbread Book of the Year, one of the most valuable literary prizes in the UK, was announced yesterday. Each category winner receives £1250, and goes forward to a further judging panel of 11, including one member from each of the five categories. The overall winner, who will receive a prize worth an additional £18,750, will be announced at a dinner on January 19 1988

Seamus Heaney won the poetry award for *The Haw Lantern* (Faber and Faber, £7.95 hardback, £3.95 paperback); his recent collection published earlier this year. Geraldine McCaughrean won the children's novel award for a first effort aimed at the 9-14 age group. *A Little Lower than the Angels* is a tale of an apprentice boy living in England's Middle Ages (Oxford University Press, £ 6.95).

In the two adult fiction categories, Ian McEwan won the novel award for *The Child In Time* (Cape, £10.95), and Francis Wyndham, whose short stories have delighted readers for years with their fastidious elegance, won the first novel award with *The Other Garden* (Cape, £9.95). Mr Wyndham's book was praised by Susan Hill,

In a strong biography/autobiography section, which included Richard Ellmann's *Oscar Wilde* (Hamish Hamilton, £14.95) in the final selection, the category prize went to a 21 year old for a savage, powerful, autobiographical account of a disability which prohibits him from speaking, walking, or even wielding a pen. Christopher Nolan's *Under The Eye of the Clock* (Weidenfeld & Nicolson, £8.95) was described by Ben Pimlott, one of the section judges, himself a Whitbread winner in this category in 1985, as "important and original: an account of a life dominated by disablement which can no more be separated from that than the war poets can be separated from their experience of war."

Gay Firth

Arts guide

October 30 - November 5

Theatre

LONDON

Separation (Hampstead): Powerful sequel to Duet For One by Tom Kempinski using that play as furniture in the transatlantic love story of a crippled actress and overweight agoraphobic playwright. David Suchet and Saskia Reeves give all in Michael Attenborough's production. (01-722 9301)

The Rover (Mermaid): Jeremy Irons roisters into town in the RSC's Swan production by John Barton of Aphra Behn's rollicking comedy. Plays in repertoire with the Chernobyl play, Sarcophagus, an urgent but clumsily crafted hospital drama set in a terminal radiation clinic as the first victims of the disaster are wheeled in. (01-236 5568/01-638 8891).

A Man For All Seasons (Savoy): Charlton Heston begs no favourable comparison with Paul Scofield as Sir Thomas More in a leaden production of a play best left to amateurs and schoolchildren.(01-836 8888).

Antony and Cleopatra (Olivier): Peter Hall's best production for the National Theatre he leaves in 1988 brings this great but notoriously difficult play to thrilling life. Judi Dench and Anthony Hopkins are battle-scarred lovers on the brink of old age. Dench is angry, witty and ultimately moving. (01-928 2252)

The Phantom of the Opera (Her Majesty's): Spectacular and emotionally nourishing new musical by Andrew Lloyd Webber emphasising the romance in Leroux's 1911 novel. Happens in a wonderful Paris Opera ambience designed by Maria Bjornson. Dave Willetts has succeeded Michael Crawford as the Phantom. (01-839 2244, CC 01-379 6131/240 7200)

The Balcony (Barbican): Sadly dated and heavy-handed opening to the RSC's Genet retrospective, not helping to fight suspicions that the RSC, certainly in London, is stretched way beyond its creative capacities. Terry Hands directs, Farrah's set looks like a cheap pink brothel and the actors, a dull lot, clump around on high boots in big bulging costumes. (01-628 8795)

Follies (Shaftesbury): Stunning revival, directed by Mike Ockrent and designed by Maria Bjornson, of Sondheim's 1971 musical in which poisoned marriages nearly undermine an old burlesque reunion in a doomed theatre. Four new songs, improved book by James Goldman. Cast led by Dolores Gray, Julia McKenzie, Diana Rigg, Daniel Massey. All good. (01-379 5399)

Melon (Haymarket): Alan Bates predictably good in new Simon Gray, clumsily directed by Christopher Morahan, about a jealous publisher viewed in flashback from a psychiatric ward after a breakdown. Menopausal mutterings; not vintage Gray. (01-930 9832)

Serious Money (Wyndham's): Transfer from Royal Court of Caryl Churchill's slick City comedy for champagne-swilling yuppies: how the Big Bang led to class tumult and barrow-boy dealings on the Stock Exchange. Hot and livid, but new cast deemed less good. (01-836 3028, CC 01-379 6585)

A Small Family Business (Olivier): Brilliant new Alan Ayckbourn play about Britain on the fiddle in greedy times, selling out to foreigners and keeping it simultaneously in the family. A comedy thriller on the large scale. (01-928 2252).

NEW YORK

Fences (46th Street): August Wilson hit a home-run, this year's Pulitzer Prize, with James Earle Jones taking the powerful lead role of an old baseball player raising a family in an industrial city in the 1950s, trying to improve their lot but dogged by his own failings. (212-221-1211).

Cats (Winter Garden): Still a sellout, Trevor Nunn's production of T.S. Eliot's children' poetry set to trendy music is visually startling and choreographically feline, but classic only in the sense of a rather staid and over-blown idea of theatricality. (212-239 6262).

42nd Street (Majestic): An immodest celebration of the heyday of Broadway in the 1930s incorporates gems from the original film like Shuffle Off To Buffalo with the appropriately brash and leggy hoofing by a large chorus line. (212-977 9020).

A Chorus Line (Shubert): The longest running musical ever in America has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions. (212-239 6200)

La Cage aux Folles (Palace): With some tuneful Jerry Herman songs, Harvey Fierstein's adaptation of the French film manages barely to capture the feel of the sweet and hilarious original between high-kicking and gaudy chorus numbers. (212-757 2626)

Saleroom/Antony Thorncroft

Vintage golf mementoes

A punch bowl made in China in the late 18th century and decorated with what is believed to be the first illustration of the game of golf sold for at Sotheby's yesterday for £22,000, double its estimate. It was bought by *Manfred Schotten*, a Burford dealer. The bowl comes from the collection of Francois and Nicole Hervouet and has caused immense interest.

It shows a figure of a golfer with club raised in full back swing. The Chinese painter was working from a drawing done by David Allan in the 1760s, and was perhaps ordered by a member of the East India Company who was a keen golfer, or for the Honorable Company of Golfers in Edinburgh which was active at this time. The first reference to golf is dated to the mid 16th century but work of art relating to golf before 1800 are very rare.

The morning session of the sale of Chinese export porcelain totalled £1,050,720, with a tiny 4 per cent unsold which suggests that there is nothing wrong with this sector of the art market. A "tobacco leaf, Qianlong, dinner service with 243 pieces, was just on target at £209,000, being bought by Marlboroughh Fine Art, which rarely diversifies out of modern art into Chinese works.A pair of "rococo" ice pails made £57,200, and another London dealer, Hogg, paid £41,800, way above estimate, for a pair of "famille rose" figures of pheasants.

At Phillips 19th century works of art sale a pair of bronze figures of young women holding aloft torches, signed by Guillemin and stamped Barbedienne, went for £17,600, while Bonhams, covering rarther similar territory, sold a Barre bronze of a centaur for £7,150.

The top price on the first day of Christie's auction of Chinese export porcelain (it continues today),was a rare Ming blue and white armnorial pilgrim flask , 29.5cm high,made in the late 16th century for the Spanish market. The arms are the personal arms of King Philip II which suggests the flask was made for the king's collection of at least 3,000 items of Chinese porcelain, inc luding four other known versions of the flask.It sold for £77,000 to an American collector: it had carried a top estimate of £25,000.

Agnew, the London dealer, paid £39,600 for a view of the pool of Bethesda in Jerusalem, drawn in 1839 by David Roberts, at Phillips English drawings and watercolours auction. It was a record for a Roberts watercolour and more than doubled the estimate.A pair of flower pictures by Andrew Nicholl went for £14,300, also way above forecast.

A complete run of the *fifty* number of "Camera Work", edited by the famed Alfred Stieglitz between 1903 and 1917, with 546 plates, sold for £19,887 at Sothebys in New York on Monday. The price was way below estimate.

FINANCIAL TIMES

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Wednesday November 4

Grounds for confidence

THE CHANCELLOR of the Exchequer, Mr Nigel Lawson, has rightly gained a reputation for luck.

First,the most painful, but probably necessary, policy decisions that transformed key aspects of UK performance were taken under his predecessor.

Secondly, there was an exceptional opportunity to depreciate sterling against the European currencies during 1985 and 1986, without rising inflation, because of the decline in commodity prices, including oil.

More than luck was involved in the depreciation. It was a bold decision because, despite Mr Lawson's rhetoric, repeated yesterday in the House of Commons, about "the defeat of inflation remaining at the heart of the Government's economic strategy", the depreciation *probably entailed* the abandonment of that objective, perhaps indefinitely, in favour of higher real growth.

A lucky man, the Chancellor can argue more generally, is one who knows how to exploit opportunity. Certainly, he can point to excellent performance of the economy during his stewardship.

Key question

There are two particularly encouraging features in the economic performance he described. The first has been the growth of productivity in manufacturing. In spite of earnings rising at 7¾ per cent in recent months, unit labour costs in British manufacturing are expected to be virtually constant in 1987 and below the rise in the average of other industrial countries.

The second is the decline in unemployment. Since June 1986 seasonally adjusted adult unemployment has fallen by some 437,000.

It is against this appealing background that the plans for public expenditure can be judged. The Government continues to adhere to a goal of reducing the share of public expenditure in GDP. The projection is for a fall from 42½ per cent in 1987-88 to 41¼ per cent in 1990-91, excluding privatisation. In fact, in 1997-88 for the first time the share is expectedt to fall below that of 1978-79.

In spite of the announcement of increases over previous planning levels, amounting to £2½ bn for next year, the key question remains whether the intention to squeeze the share of public expenditure in GDP, irrespective of the functions for which the Government is responsible, makes sense.

Essentially, the Government is determining the amount that can be spent on behalf of most people in key areas like health and education. It is peculiar that the government is in favour of tax cuts, with which people can buy holidays in Marbella, while shying away from the radical policy decisions that would allow them to buy more health or education at the margin. Consequently, the government may be priding itself on an achievement which amounts to a major distortion of individual preferences.

Wealth effect

In presenting his projections, the Chancellor was well aware of the doubts about the global economic prospects. With a projected growth of 2½ per cent of GDP in 1988, one can argue that he has been cautious enough. This growth rate, however, would probably not be consistent with declining unemployment at anything like recent rates.

In the light of events of the last few weeks, little has happened to slow demand growth in the UK. The wealth effect of the equity market decline is modest. Furthermore, falling rates of interest could render mistaken the widespread assumption that the house price boom will taper off.

The key issue is the international environment. What is likely is that the stimulus from the US economy will decline much faster than expected even a few weeks ago. Moreover, one can doubt whether growth in West Germany, the most important of our neighbours, will be anything but dismal in these circumstances.

The UK will, therefore, probably have to accept a substantial shift in the external balance as its contribution to the global adjustment.

With Mr Lawson's considerable adroitness and luck it is by no means inconceivable that UK will grow steadily through a world recession, even with a deteriorating current account. The possibility is certainly the most convincing proof of the underlying improvement in the economy.

Mr Weinberger departs

THE NEWS that Mr Caspar Weinberger is about to resign as US Defence Secretary will probably not cause any great sorrow in European capitals.

Mr Weinberger is respected in Nato circles as a forceful and effective politician closely associated with President Reagan's policy of building up US military strength, which many west European governments welcomed after the post-Vietnam rundown.

The reversal of the trend actually occurred under President Carter and Mr Harold Brown, but Mr Reagan and Mr Weinberger carried it on in a spectacular way which put an end to any serious fear that the Soviet Union might overtake the West in strategic terms.

It would be unjust not to recognise that that achievement is probably at least in part responsible for the somewhat better climate which now prevails in east-west relations.

It would also be unrealistic not to admit that increases in defence spending were one of the main factors that brought *about the enormous* US budget deficit, which in turn is now held responsible in whole or in part for the problems of the world economy. Mr Weinberger as Defence Secretary by no means lived up to the sobriquet of "Cap the Knife" which he had earned as President Nixon's budget director in the early seventies.

Moreover, while military strength is an essential precondition for successful east-west negotiations, there can come a point where its pursuit for its own sake becomes an obstacle to success. It is no good building up a great pile of bargaining chips if, when the other side comes to the table, one is not prepared to bargain.

There have been times when that seemed to be Mr Weinberger's position and when - perhaps under the influence of his former deputy, Mr Richard Perle - he appeared determined to wreck the chances of any arms control agreement with the Soviet Union.

His championship of the Strategic Defence Initiative has likewise won him few friends on this side of the Atlantic, especially as he has been the leader of those who would be happy to whittle down, and probably in due course to scrap, the Anti-Ballistic Missile Treaty.

Britain and France especially see this treaty as crucial to the credibility of their own strategic deterrents, while other European governments see it as one of the few tangible results of the first detente - an important piece of evidence that worthwhile agreements with the Soviet Union can be reached. Europeans have not, *on the whole*, been impressed with the evidence for Soviet violations of the treaty produced by the Pentagon under Mr Weinberger's direction.

So one does not have to be an uncritical enthusiast for arms control at any price to feel that Mr Weinberger is no longer quite the Defence Secretary the times require. On balance his departure should make the US administration that much easier for allies to deal with, and should improve the chances of a productive summit between Mr Reagan and Mr Gorbachev in Washington next month.

Strong feeling

Doves should not rejoice too loudly too soon. Arms control *agreements may be easier to* negotiate without Mr Weinberger, but when it comes to securing their ratification by the US Senate - where hawks such as Senator Jesse Helms still wield a formidable influence - an administration without Mr Weinberger's authority may find it that much more difficult.

His successor, Mr Frank Carlucci, is undoubtedly a "safe pair of hands" but is seen in Washington more as an able and reliable bureaucrat than as a politician with a mind of his own.

Meanwhile, however genuinely personal the reasons for it, Mr Weinberger's departure coming on top of so many others increases the strong feeling of fin de regne which now surrounds the Reagan Administration even though it still has more than a year of office left to it - a feeling that is reinforced by the promotion of Mr Carlucci's deputy, General Colin Powell, to take over from him as National Security Adviser.

In other circumstances one might hail the appointment of a black to this post as an important breakthrough. As it is, the most plausible interpretation is that noone felt it worthwhile trying to recruit new talent to an administration that is already on its way out.

Wunder turns to whimper

The German model under strain

Low growth, high taxes, inadequate capital investment and an affluent culture are blunting West Germany's economic edge. The first of two articles by David Marsh

ON A CONDUCTED tour through the Bavarian lakes and mountains this autumn Zhou Zhen Qing, vice-governor of the People's Bank of China, was clearly impressed by West Germany's leisure boom.

The sight of West Germans engaged in open-air sports from hang-gliding to wind-surfing prompted him to remark to his central bank host that young people these days were not afraid to take risks.

The anecdote is related with a chuckle by Mr Helmut Schlesinger, vice-governor of the Bundesbank, as throwing an ironic shaft of light on the economic state of the federal republic. In rich, well-organised West Germany, the economic *Wunder* has turned into a whimper.

Leisure, not industry, is in fashion. The risk-taking post-war spirit, born of hardship and the need to rebuild a shattered nation, may live on in the hang-gliding clubs. But across the country as a whole, it has given way to a desire for comfort, security and defence of the status *quo.*

West Germany's decentralised economic and political system - built on consensus between government, unions and employers - has long been seen by countries *like* Britain as a major strength. Consensus has brought the country 40 years of *peace and prosperity. Yet the* checks and balances have led not only to stability, but latterly to government inaction and economic inflexibility.

"West Germany was a model *only in the (post-war) recovery* when markets were developing faster than institutions," says Professor Herbert Giersch, president of the free-market Kiel economic research institute.

Now that the country is facing the challenges of slower growth and worldwide economic change, he says West Germany's corporatist structure of organised interest groups has again come to the fore. "What we need is a consensus for more flexibility - but the organisations are not receptive."

West German economic growth, likely to be only about 1.5 per cent this year, has dropped comprehensively, and very likely permanently, below the average of the industrialised world.

Surprisingly, in view of its image as a powerhouse economy, West Germany's growth underperformed the average of the Organisation for Economic Cooperation and Development (OECD) every year between 1981 and 1987. Only in three years since 1971 - in 1976, 1979 and 1980 - has the economy done better than the OECD average.

"Unemployment, at just over 8 per cent of the labour force, is now around the OECD average. It is more than eight times higher than at the onset of the first oil shock in 1973, and nearly three times higher than at the time of the second shock in 1979. In relative terms, this is a worse deterioration than any other major economy apart from Spain and the UK.

And according to the latest report from the country's five leading economic institutes, published this week, unemployment is likely to grow slightly to nearly 2.3m in 1988 even on the somewhat optimistic forecast of 2 per cent growth in gross national product next year.

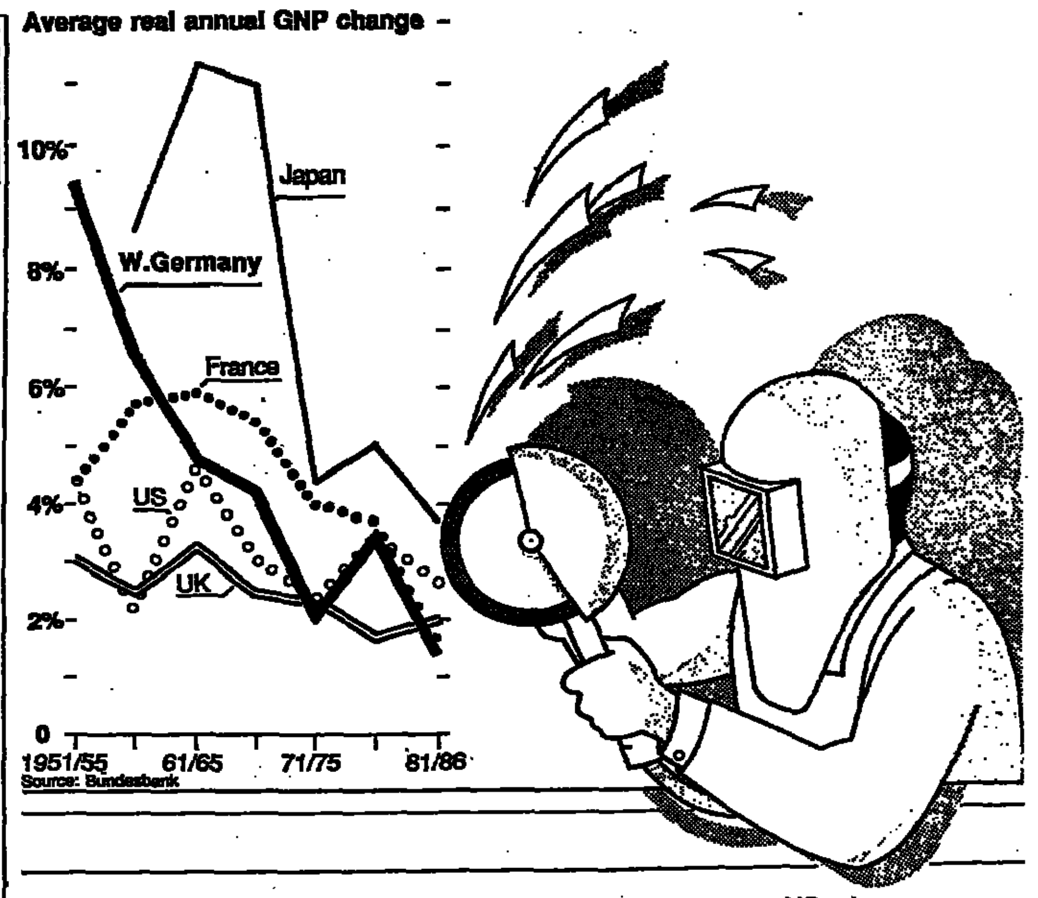
The debate on how to restore drive to the economy has been *given fresh urgency by the collapse* of world stock markets and worries about a possible recession in the US.

The Reagan Administration has called repeatedly for higher West German growth to lower its huge current account surplus and head off dangers of an *international slump. The* government of Chancellor Helmut Kohl and the constitutionally-independent Bundesbank argue that their economic policy of "no experiments" is more solid than the financial and budgetary recklessness characterising the Reagan administration's strategy. But, as the dollar yesterday sunk to a record low against the D-Mark, fears grew that export-oriented West Germany could end up with the worst of both worlds - simultaneous economic weakness at home and abroad.

The Kohl Government, in power since 1982, is focusing its medium-term growth efforts on a DM20bn (£6.7bn) net tax cut planned for 1990. It has made only halting efforts to deregulate the economy and in some important cases - for instance, by increasing subsidies - has added to intervention. The tax cut plans have received only a grudging welcome from industry and have attracted protests from trade unions on the grounds that they give the biggest increases in income to those who are already better-off.

It is significant that criticism of inertia in economic policy-making is now starting to well up from the Kohl Government's natural supporters in banks and industry. "The German engine has lost steam quite considerably," says Mr Wilfried Guth, supervisory board chairman of Deutsche Bank.

Average real annual GNP change



	W.Germany	UK	France	US	Japan
Labour costs in manufacturing* DM per hour (1986)	31.4	17.6	22.4	29.0	25.3
Working hours Annual per capita (1985)	1,640	1,947	1,652	1,913	2,135
Private consumption % of GDP (1985)	55.0	59.7	64.6	66.7	55.5
Investment Gross fixed capital formation % of GDP (1985)	19.9	18.4	20.1	21.2	30.0

Source: Institut der deutschen Wirtschaft

* Wages & Social Security charges

CHRIS WALKER

Commenting on the lack of progress in deregulating the economy, he says: "It is disappointing that this Government has not really shown enough courage thus far. The great ability of the present Chancellor is *stamina, but with greater political* courage, more could perhaps be achieved."

Mr Guth complains that the virtues which characterised the first post-war period - courage *to liberalise and to accept full* competition, and a firm belief in the free market economy - are still accepted as basic philosophy, but are often neglected in practice.

He says the federal political system has played a part in impeding government action on deregulation or cutting subsidies. "We are aware that this is difficult to carry through in view of constant state elections. There is a continual feeling that the Laender (state) governments or the federal government could lose votes in areas like agriculture."

But he adds: "There is a need for action in this country to strengthen our economic structure. I do not deny that this is a narrow path, *but this, for me, is* the art of politics. The price for social peace must not be too *high.*"

Mr Tyll Necker, president of the Confederation of German *Industry (BDI), says a mood of* "growth defeatism" is prevalent. "I am warning of the dangers ahead. Growth could emigrate."

A range of specifically German problems are making the country a less attractive place for industry compared with *nations such as Britain or France,* Mr Necker says. These include high corporate taxation and social charges, the trend towards shorter working hours, strict environmental regulations as well as worries over financing the pensions system with a declining and ageing population.

'We are thinking too much about our prosperity and not enough about our future'

"We are thinking too much about our prosperity and not enough about our future," he says.

Mr Ronaldo Schmitz, board member in charge of finance and raw *materials* at BASF, the chemicals company, says: "West Germany has not become *consciously anti-industry, but there* has been a gradual deterioration in the conditions for industrial activity.

"Governments are gearing their action increasingly to the short term and to fluctuations in public opinion. We need a *government with the courage to* take unpopular measures."

The country's big chemical, car, *electrical* and engineering concerns are certainly still at, or near, the top of the league *table of international competi*tiveness. And the massive current account surplus, likely to decline only slightly this year from last year's DM80bn, indicates that West Germany still has no problem in earning its way in the world.

The surplus, however, has *been greatly amplified in the* last two years by the decline in the cost of imported goods caused by the D-Mark's appreciation. It masks deeper seated problems relating to the country's inability to increase its consumption of imports.

According to Professor Juergen Donges, vice-president of the Kiel institute, wealth built up since the war distracts attention from structural difficulties - difficulties which are in some ways similar to those faced by Britain in the 1950s and 1960s.

"Everyone goes on holiday twice a year, everyone has two cars, everyone has a house, ev*erything is so clean, the aero*planes fly on time... The Germans think they are living in paradise," he says.

A similar point - from a man who believes income and prosperity are still unfairly concentrated - is made by Mr Hans-Jochen Vogel, chairman of the opposition Social Democratic Party (SPD). "We could ask people to put up with a lot if we as a nation were poor. But in comparison with the 1950s, we are as rich as kings."

Insufficient capital investment, coupled with past complacency about problems in old industries like steel and coal, is now blamed by economic thinkers of both right and left for the country's disappointing growth performance.

Net capital investment as a proportion of gross national product has *almost* halved compared with the beginning of the 1970s, leading to rapid ageing of *the capital stock. In its latest re*port on the West German economy, the OECD blames insufficient capital *formation,* rather than excess savings by households, as the main factor behind the high external surplus.

Financial conditions for industry have improved considerably since Mr Kohl's Government took power. *Inflation has* fallen sharply, corporate profits have recovered and real wage *costs have been kept down.*

Yet although companies are spending record amounts on foreign investments and acquisitions, domestic capital investment has failed to grow as fast as hoped. Gross fixed investment may rise by only 1 per cent this year - a major disappointment for the Kohl Government.

At the same time, persistent economic rigidities - everything from the highly centralised wage bargaining system to strict rules on shop closing hours - dull the edge of macroeconomic efforts to produce more growth.

Like many, Mr Wolfgang Kartte, president of the Federal Cartel Office in Berlin, finds an explanation for inflexibility in Germany's tortured history. He says the Germans are resisting change for a mixture of reasons - history, tradition, bitter experiences, folk-character and Angst.

Mr Kartte adds: "If you make harmony your first priority, you can lead neither a company nor a state." But he points out that the German public demands security rather than experiments.

Mr Hans Tietmeyer, state secretary at the Finance Ministry, *also makes* the point that, partly because of "past traumas," German society must not be stretched too far.

According to Mr Schlesinger of the Bundesbank, West German growth has now slowed for good. Average growth so far this decade has been only 1.5 per cent and he sees output potential growing by no more than around 2 per cent a year in future.

"The falling workforce, cuts in working hours, the trend towards leisure, the higher amount of spending on the environment - all this could increase the quality of life, or at *least stabilise it, but it won't put* up output," he says.

Prof Gerhard Fels, president of the Institut der Deutschen Wirtschaft, a research organisation close to the BDI, says that 2 per cent growth is bad for two reasons. "It is too little to bring down unemployment - but too much to cause anything to change."

A second article will appear tomorrow.

Men and Matters

Unesco breaks down

The sliding US dollar means that from now on staff at the troubled United Nations cultural agency, Unesco, will have less cake to eat.

Unesco deputy director-general, Michel de Bonnecorse, of France, told reporters yesterday, that new economy measures will mean a cut in coffee-and-cake breaks at Unesco's Paris headquarters.

He said an administrative commission meeting to discuss the agency's budget for the next two years agreed to slice the twice-daily courtesy servings as part of across-the-board economies proposed by West Germany.

Cutting cake will save the United Nations educational, scientific and cultural organisation $20,000, while reduced privileges for executives such as flying business class instead of first class will save $100,000 or more.

Reducing general conferences by five days, at an estimated $100,000 a day, and cutting 20 days of executive board meetings over the next two years would save $1m.

The next budget, expected to total about *$350m, would have a* built-in deficit of around $10m because the commission had refused to include 'inescapable new charges' in its arithmetic, de Bonnecorse said. So there may be even less cake next year.

Speak fair

Some of the harsh comments made about the high boredom threshold required to withstand *a speech* by Peter Brooke, the new chairman of the Conservative Party, do him lessthan justice and certainly pay scant attention to some of hisparliamentary achievements.

Brooke enjoys the distinction of being the only member of the Goverment to be the subject of a point of order couchedin these terms: "Surely the Minister has finished his speech, yet he is still going on. Is that in order?".

Brooke, speaking in his role as Paymaster General, was winding up a debate on the Finance Bill at the time,andwas immediately complimented by Bernard Weatherill, the Speaker, on his "very elegant speech".

*It so happened that it includ*ed a reference to his goodfortune in being brought up at the knee of a Welsh mother,Baroness Brooke of Ystradfellte, who was a deputy chairman of the Conservative Party for some 10 years until the mid-1960s. She taught him the rhyme:

"Joshua, the son of Nun,
And Caleb, the son of Jephunneh,
Were the only two,
Who ever got through,
To the land of milk and honey."

Norman Tebbit, Brooke's predecessor, should be able to testify to that.

Bland meals

For Christopher Bland,chairman of *London* Weekend Television, the proof of the pudding is not just in the eating.

Meals, Bland believes, are definitely far more serious matters than mere fillings for the stomach. Over meals, people do business, propose, are rejected - and come up with ideas for new books.

*Over a meal in a French res*taurant in London's Notting Hill, Bland and Linda Kelly came up with the idea for Feasts - an anthology of meals, or rather 100 meals culled from the writings of authors such as Auden and Zola, Tolstoy and Trollope.

The book, published yesterday, started "with the hors d'oeuvres and crystallised by the coffee."

For Bland, the best two meals in the book involve cannibalism and sex.

His absolute favourite is from Evelyn Waugh's Black Mischief when after the Funeral Feast of Emperor Seth, the hero Basil

"Never mind what the Russians think of Gorbachev's speech - what do the stock market yuppies think of it?"

recognises the "pillar box red beret" which had been worn by Prudence, the Englishwoman on the aircraft.

Asked where she was, the headman replied: "The white woman? Why here." He patted his *distended* paunch. "You and I and the big chiefs - we have just eaten her."

Bland has similar warm *feelings* about the *steamy* - in every sense of the word - macaroni dinners portrayed by Giuseppe di Lampedusa in The Leopard.

As Bland says there is more food for literary thought in Feasts than recipes for foodies.

Taking stock

As gloom encircled the City's dealing rooms recently one stockbroker, Peter Virgin, found a haven of peace in the British Museum.

Virgin, *aged 44, is probably* *the only London stock analyst* who is also an ordained Anglican clergyman - though he stresses that his ministry is "inactive."

When he is not following insurance shares for Morgan Grenfell Securities, he is writing a social history of the 18th century Church of England. Just before the crash of '87, he started a three-week holiday dedicated to research for the book.

Provisionally entitled The Church in an Age of Negligence:1700-1840, the book has been 18 years in the making since he was a student at Trinity College, Cambridge. Now, he says "something would have to go badly wrong" for it not to be published in 1988.

It centres on a study of ecclesiastical corruption. On the basis of painstaking study of church records, he argues that *this was far more widespread in* the period than other historians have suggested. Examples cited in the book include the enormously wealthy Earl of Bridgewater, who lived from 1814 to 1829 in the Rue St-Honore in Paris and had five illegitimate children, while at the same time was nominally the rector of two *Shropshire parishes.*

Street of shame

A building company has lost its fight to stop the parish council of Uffington, near Stamford, *from calling* a *street* Trollope Close.

Although the Trollopes are a prominent local family, related to the 19th century novelist Anthony Trollope, the builders felt the name would deter homebuyers and lodged an official protest, quoting a dictionary definition of "trollop" as a "prostitute or slatternly woman".

But South Kesteven parish council has overruled the objections and given permission for the name.

What a hoot

In the market,they are now talking about a new phenomenon, *known as the "night-owl* stock". It is one for which an order to sell provokes the (ungrammatical) response:"To who? To who?"

Observer

Europe's space industry

Calling mission cash control

By Peter Marsh

DOES WESTERN Europe need, and can it afford, a $40bn (£23bn) space programme by the end of the century? That question and that very large sum of money lies behind next week's ministerial meeting in The Hague of the 13-nation European Space Agency, which will discuss a plan to raise the organisation's annual budget from $1.7bn to about $3bn by 1993.

Much of the extra cash would be spent on three grandiose projects now on the drawing board: a more powerful version of the Ariane satellite launcher, the Columbus manned orbiting laboratory and a small manned spacecraft called Hermes, to be launched by the improved Ariane.

While Columbus would be part of a US-led international space station planned for the mid-1990s, Hermes is a key element in the drive by ESA to create an independent space capability beyond the year 2000. Hermes would enable Western Europe to put people into orbit (something which can only be done at present by the US and the Soviet Union) for jobs which many believe will be vital on the large and complex space structures which are likely in the next century.

Hermes is strongly backed by France, Western Europe's biggest and most enthusiastic space power, which provides roughly a quarter of ESA's budget. The cost has, however, doubled to roughly $5bn since the project was first mooted three years ago.

The rise has come on top of similar increases in the estimates for both Columbus and the improved Ariane (to be called Ariane-5), each of which is now likely to cost at least $4bn. It is these figures which have led Mr Kenneth Clarke, Britain's Trade and Industry Minister, to characterise ESA as "a highly expensive club" with over-ambitious goals.

Mr Clarke has served notice that the UK will not be increasing its contribution to the agency; it is the fourth biggest provider of funds, after France, West Germany and Italy. There are signs, covert at this stage, that the Germans and perhaps others too think Mr. Clarke has a point.

There is relatively little controversy over Ariane-5 - an extension of an ESA development which has proven highly successful commercially. But ESA members may raise questions at The Hague over Columbus as well as Hermes. This has project now has four separate elements: two pressurised modules for people (one to fit permanently into the US core of the international space station and the other to dock periodically) plus two unmanned platforms for scientific experiments.

The range of hardware is justified by ESA officials on the grounds that it gives Western Europe the chance to take part in the space station venture and, at the same time, to gain expertise useful in the long-term ESA goal of having its own independent orbiting base.

To some observers, however, the Columbus design, added to the other parts of the ESA package, looks like overkill. UK officials have voiced the fear that the Paris-based agency has become too susceptible to influence from the French Government, which has been a strong backer of space programmes for 25 years. In the last three years, the agency's budget has almost doubled.

Professor John Logsdon, a science policy expert at George Washington University in Washington, says that given last year's Challenger space shuttle disaster in the US, the timing for an extension of Europe's space ambitions is not of the best. "The ministerial meeting is a bit of an embarrassment. In an ideal world ESA would like it to go away," he says.

There is also a feeling that space advocates have promised too much in the way of commercial spin-offs in glamorous areas like low-gravity materials processing and sales of satellite pictures for monitoring crop developments. "The space business is not like car-making; it is a research process that is trying to become an industry," says Ms Rachel Villain, of Euroconsult, a Paris-based consultancy.

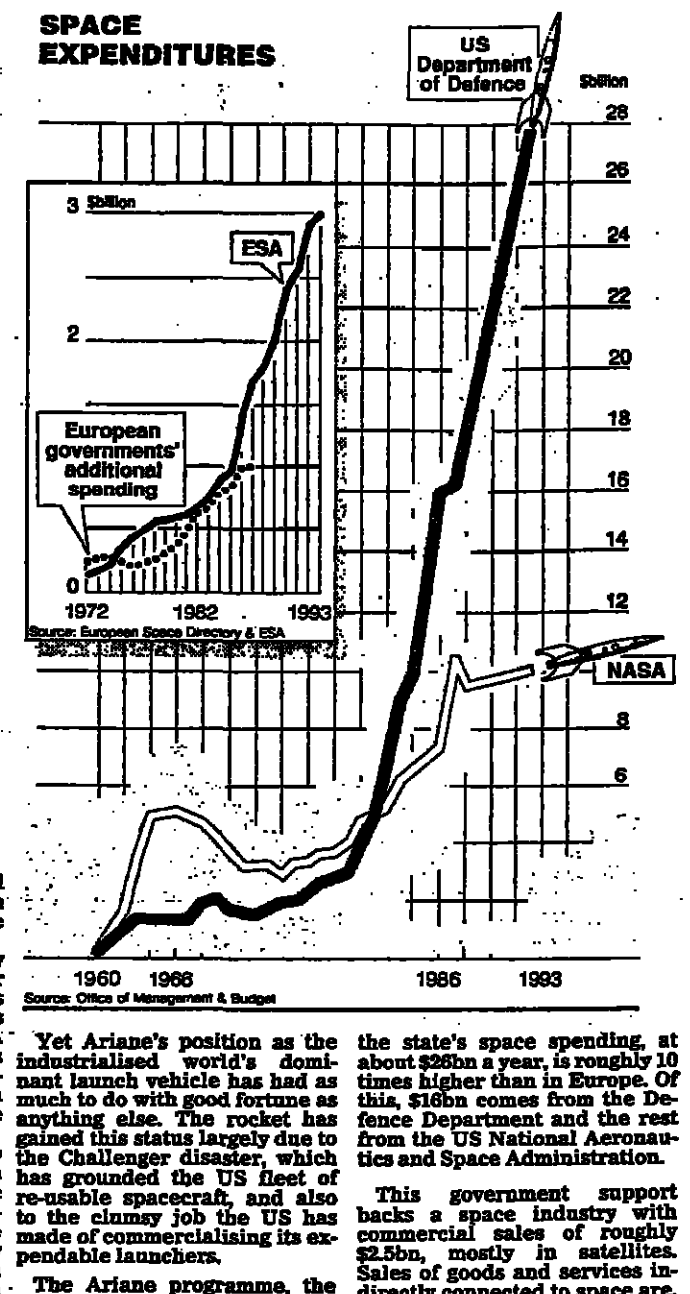
The most valid reason for backing space technology, says Mr Frederic d'Allest, director general of the French national space agency, is the long-term strategic value of space operations.

For Mr d'Allest, whose agency has a budget of about $1bn, or roughly six times Britain's space spending, the issue boils down to one of sovereignty. A space capability, he says, means a country can organise itself politically and economically in a more effective way than one which has none.

The argument also applies to defence, especially bearing in mind the overlap between the commercial and military applications of taking pictures of the earth from space. "For a country to say it is not interested in space is like an island nation which is content to do its fishing only from the shore," says Mr d'Allest.

Mr d'Allest argues that space spending will probably lead to economic spin-offs, but these can only be speculated about. The Ariane programme, the $2bn costs of which have been borne largely by France, is a case in point. It was undertaken primarily because French leaders did not want Western Europe to be dependent on the US for satellite launch vehicles.

As it happens, the Ariane programme has proved a commercial success. Ariane - which is marketed by Arianespace, a largely privately backed company in which the French Government has a one-third stake - has already recouped its development costs.



Yet Ariane's position as the industrialised world's dominant launch vehicle has had as much to do with good fortune as anything else. The rocket has gained this status largely due to the Challenger disaster, which has grounded the US fleet of re-usable spacecraft, and also to the clumsy job the US has made of commercialising its expendable launchers.

The Ariane programme, the most visible part so far of ESA's activities, has stimulated the entire European aerospace industry. Cash spent by West European governments (about $2.7bn a year, including national as well as ESA money) has supported a European space industry with total commercial sales of about $800m a year.

Most of this cash goes to companies working on the Ariane programme, of which the biggest beneficiaries are French concerns such as Aerospatiale, Matra and SEP.

Space advocates point to other useful commercial benefits arising from the money spent on space, in areas such as satellites, telecommunications and electronics.

They point to the US, where the state's space spending, at about $26bn a year, is roughly 10 times higher than in Europe. Of this, $16bn comes from the Defence Department and the rest from the US National Aeronautics and Space Administration.

This government support backs a space industry with commercial sales of roughly $2.5bn, mostly in satellites. Sales of goods and services indirectly connected to space are, however, far higher. The annual market for satellite-based telecommunications services in the US is, for instance, estimated at $5bn.

According to many US observers, Western Europe has a better record than the US in translating government expenditure on space into commercial results. In particular, ESA is generally well regarded. "They (ESA) do good work," says Mr Henry Herzfeld, a technology consultant in Washington who was formerly chief economist at Nasa.

One reason for the contrast may be that the US had a multiplicity of motives in putting money into space: the space effort was fuelled largely by scientific inquiry and by the prestige aspect of the 1960s moon-landing programme. Nancy Naismith, an analyst at the US Congress's Office of Technology Assessmment (OTA), says the European space programme is more in tune with the commercial world. "We went into space for exploration and world leadership," says Ms Naismith. "Any commercial returns were gravy."

The level of US military involvement in space has introduced further complications: "We have had a terrible time figuring out what (in space programmes) is necessary for national security and what you can make a dollar out of," says Mr Gordon Law, another OTA analyst.

As for the view - expressed by the UK Government - that space projects like Hermes and Columbus should be attracting cash from the private sector rather than from governments, observers say companies are unlikely to support projects where the pay-offs may be decades away.

Sir Geoffrey Pattie, the former UK Industry Minister - who, until he lost his job last summer, was a strong backer of an expanded UK space programme within Whitehall - says he has a lot of sympathy with the idea that the private sector should put more money into space. But, he says, it is inappropriate to apply this principle too rigidly to space activities, both because of the high-risk nature of the industry and because of its long-term strategic value. "You can carry the bottom-line rectitude argument too far," he says.

Recent British statements about space have led many observers to the conclusion that the UK has closed its mind to an important area of exploration both in terms of science and of commercial interest.

"The UK has a lot of capability in space and aeronautics," says Mr Patrick Dubarle, a technology analyst at the Organisation for Economic Co-operation and Development in Paris. "I think its spending is a bit low to take advantage of these skills."

According to some, Britain has a key role to play in ESA, but is unlikely to be allowed to fulfil it if it persists with what appear to be negative attitudes to space funding.

It may well be that ESA's programme is a little too visionary - in which case slowing down some aspects, such as Hermes and parts of Columbus, may be in order. Even relatively modest extraterrestrial activities - such as earth observation or forecasting the weather - can yield useful results.

Mr Ray Williamson, a space analyst at the Office of Technology Assessment in the US says: "I would not myself be thinking of investing in another trip to the moon but there are a lot of space technologies that are worth backing because they are valuable for the future."

Lombard

Short-termism of governments

By Martin Wolf

"SWEET IT IS, when the winds are buffeting the waters on the great sea to gaze from the land on another's huge struggle." So wrote the Roman poet, Lucretius, though he undermined the truth of the observation by insisting that the joy consists solely in knowing the misfortunes one has oneself escaped.

The Germans are more realistic, referring to the sensation as Schadenfreude, delight in the pain of others. As reactions to the stock market crash have shown, the pleasure of watching the rich, especially the newly rich, become poorer is considerable.

Unfortunately, the events of the past few weeks have done more than provide that pleasure. They have also reinforced the notion that markets need to be kept in their proper place, subject to the guidance and direction of governments.

The correct lesson is different. After the twists and turns of the last 20 years investors no longer know what to make of the intentions of governments. Consequently, they oscillate between confidence that governments know what they are doing and the realisation that a major government has yet again lost control over itself and so over events.

Consider the recent crash. During the 1980s the ratio of Federal debt to US GNP has risen from 32 per cent to more than 50 per cent. Furthermore, much of the additional funds to finance this accumulation of debt have come from abroad, with the US moving from being the world's largest creditor to the world's largest debtor in a comparatively short period.

What were investors to make of such a development? At one extreme, they may believe that this will prove to be a temporary phase which will be stopped before it does permanent harm. At another extreme, they may fear that the debt will never be serviced at all, but will be accumulated until the cost of selling any more ensures that it will be inflated away.

In between these extremes is the possibility that the debt accumulation will be stopped by a collapsing dollar and restrictive monetary policy, the result being a global recession. Alternatively, the external adjustment may be carefully managed, with compensating adjustments in the US and the surplus countries and continued non-inflationary growth of the world economy.

The governments of the Group of Seven countries have naturally tried to convince the markets that the last alternative is what will actually happen and many investors have believed them. But when both the tardiness of the US adjustment and the level of disagreement among governments were too obvious to ignore, a significant number of players changed their minds and, as is natural in a market, sudden changes in prices promptly followed.

It is only against this sort of background that the accusation of "short-termism" consequently levelled against markets can be assessed. What is remarkable, in fact, is that there is anything apart from short-termism left in the markets, given the extent of policy-induced uncertainty.

Who would have thought in 1980 that a Republican US would pursue policies leading to a trade deficit of more than $150 bn. a year? Who would have thought as little as 10 years ago that countries of Western Europe would avoid reflationary policies with unemployment rates in most countries of more than 10 per cent? How long can one expect either of those priorities to last?

Investors remember the legacy of the past "short-termism" of governments and fear repetition. Governments may, for example, repeat that inflation is defeated, but one need only look at the real rates of interest implied by the difference between the yield on long term bonds and recent rates of inflation to realise that investors do not believe them.

This is not to suggest that markets are incapable of making serious mistakes, most obviously by exaggerating underlying trends. But, in general, to criticise markets for their instability is to blame the victim for his trauma. To call the governments to manage the resulting instability is to ask the perpetrator in as physician. Let the governments of all the major countries first show an ability to pursue consistent, sustainable and predictable policies in managing their own affairs. Physician, heal thyself.

Letters to the Editor

Work for Lord Mackay

From The Chairman, The General Council of the Bar

Sir, Your leader "Agenda for the Lord Chancellor" (October 30) rightly points out that there is much work for Lord Mackay during the life of the present Parliament. The Bar, though sad at the resignation of Lord Havers, welcomes the new appointment and hopes that his fresh eye will help to resolve some current issues. However, reforms have already been initiated by Lord Hailsham and Lord Havers. The Bar welcomes many of these. As a matter of first priority it is important that they should be finalised and consolidated.

The idea that all civil cases should have one point of entry into the system of justice, namely the County Court, is one which will do no good to litigants. Complicated or important cases will inevitably be transferred to the High Court. It is a pointless waste of time and clients' money to start them in the County Court. Although a few cases presently come before the High Court which would be more appropriate to the lower court, it is important to emphasise that this is a small problem. Recent changes have already led to an increasing number of cases being remitted to the lower court. It would seem sensible to continue to improve this procedure rather than take radical steps which will increase the bureaucracy needed to sort out those which may go to the High Court. Equally, detailed procedures designed to facilitate the progress of complex cases in the High Court should not be imposed on the County Court where they are not needed.

You suggest solicitors' rights of audience in the higher courts. But will this truly serve the client's interest? The 1979 Royal Commission, the present Government and the Judges have all opposed such an extension as detrimental to the interest of individual litigants and the administration of justice. Many solicitors oppose it too because they will lose the choice of advocate they have at the moment. It would lead to solicitors having advocates on their payroll and those solicitors would be under pressure to keep business in-house rather than use their expertise to select the best advocate available from an independent skilled corps.

No one seriously suggests that this would be cheaper. Solicitors' overheads are much higher than those of the Bar, and the Government is already having to pay solicitors substantially more than barristers for doing the same work in those courts (eg. the Magistrates Courts) where solicitors do have a right of audience.

The client stands to be further disadvantaged if multi-disciplinary partnerships between solicitors and other professions are permitted. Will this not lead to another significant reduction in competition and choice, to more conflicts of interest between client and firm, and between department and department and the client? Will there not, ultimately, be serious problems of professional discipline to contend with? Isn't all this a high price to pay for one-stop shopping?

Peter Scott QC,
11 South Square,
Gray's Inn, WC1

More curbs on trade unions

From Mr G. Hartup

Sir, Your editorial "More curbs on trade unions" (October 28) correctly reports the Freedom Association's opposition to legislation preventing unions from disciplining members who fail to take industrial action even after an affirmative ballot. We do not do so, however, because we see "little point in the measure in view of the proposed curbs on the closed shop," as you suggest.

In our submissions concerning the Green Paper we pointed out that the Government proposed to intervene in the unions' internal affairs precisely because it had in fact shied away, as your leader put it, "from the seemingly logical step of declaring the closed shop illegal."

Ironically, the Government clearly sees the need to protect employees from the consequences of its own inaction.

In order to maintain free trade unions the Government must ensure that membership is voluntary. In such a system it then behoves the individual to either comply with major collective decisions, suffer the disciplinary consequences of not doing so, or resign. This is our position.

Unfortunately this last option is open to few workers, because taking it could ruin their careers given the persistence of the pre-entry closed shop which the Employment Bill will leave in place.

Try telling an engineer that he can resign from the AUEW without giving up his prospects should he wish to move elsewhere in the industry!

To take an example from the public sector, Sandwell Metropolitan Borough still advertises jobs with the warning "A union membership agreement is in operation", some seven years after a mass meeting voted to end the closed shop following the notorious dismissal of Miss Joanna Harris. Under these circumstances which NALGO officer has the freedom to resign from that union?

The Bill must be strengthened so as to free employees from the closed shop and thus allow the unions the lawful right to self-management without interference.

Gerald Hartup,
(Campaign Director),
Freedom Association,
360-366 Oxford Street, W1

Delays in GATT rulings

From Mr David Woods

Sir, In your report on the 40th anniversary of the signing of the GATT (October 30) you quote, without comment, Mr Bill Archey of the US Chamber of Commerce in Washington as saying that it takes an average of 4.6 years for US companies to obtain a GATT ruling on unfair trade practices. He is quoted in the context of the dispute settlement procedure of the GATT.

It is, of course, unclear whether Mr Archey is inferring that the process takes a long time because of delays in the GATT itself or in Washington. However, if it is the former then he is wrong. While we have had one or two very lengthy cases in the past few years, the average time between a complaint and a GATT Council ruling, where disputes have been taken through the panel procedure, has been little more than 12 months - and that time-scale has been reduced further in the most recent cases. Thus, the GATT process compares well with other systems of international disputes settlement.

It should be kept in mind that trade disputes are seldom as straightforward as they may seem from the statements of the governments involved. Moreover, the purpose of the GATT disputes settlement system is not simply to produce a practical compromise between two parties but to create the kind of case law which will be of real value and guidance to governments, traders and, indeed, further dispute panels in the future.

David Woods,
Head of Information,
General Agreement on Tariffs and Trade,
Centre William Rappard,
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Geneva 21

Loyalty bonus for BP shareholders

From Michael Pilch

Sir, Amid the euphoria that has greeted the Chancellor's concession of a stop-loss concession to BP underwriters, I detect scant sympathy or consideration for the 270,000 shareholders who subscribed to the issue. Why did they do it? To any sophisticated city-dweller, it appeared an act of madness to apply for shares at a fixed price when they could be bought for much less on the open market. Many were doubtless innocent dupes of the £20 million hype conducted by the Government beforehand to persuade them to "be part of it" - a tribute to the power of advertising if ever there was one. Others seem to have been motivated by a blind faith in British equity, a touching belief in the probity of politicians and a confidence that, in the end, the Chancellor would not cheat them.

Does Mr Lawson want to destroy that? Does Mrs Thatcher really want to be the first British Prime Minister to fight the next election on a Fourpence For Ninepence ticket? I suggest there is an easy way of keeping faith with these small shareholders - who must include many BP employees - which will cost the Government nothing in current revenue. The Chancellor should simply increase the loyalty bonus from its present level of 1 for 10 to 3 for 10 shares to those individuals who took up the current offer. In this way, provided they retain the shares for three years, they will eventually be placed in about the same position as if the shares had stood at 330p at the date of issue.

Since the government has already set aside sufficient shares to cover this commitment on the basis of a much larger take-up, and since the bonus shares are not available to underwriters or sub-underwriters, such modification of the terms would cost the taxpayer absolutely nothing.

I hope the Chancellor will consider this suggestion carefully if he seriously wants to continue the campaign for a shareholding democracy and to maintain confidence in the moral quality of dealings between the Government and small private investors.

Michael Pilch,
10 Timber Hill Road,
Caterham, Surrey.

Greater London Enterprise

From Mr Tony Millwood

Sir, Men and Matters (October 29) referred to "the demise of the GLC and GLEB" (the Greater London Enterprise Board). The GLC was abolished by Parliament but the GLEB (now trading as "Greater London Enterprise") was saved by London Borough Councils and is still very much alive and kicking.

Tony Millward,
Greater London Enterprise,
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FINANCIAL TIMES
Wednesday November 4 1987

President Sarney loses the political initiative

The Sarney era is all but over. Ivo Dawnay looks at the fruitless search for consensus by the President of Brazil and his failure to shape a new constitution

President Sarney on the rocks as Brazil considers elections

BRAZIL'S President Jose Sarney is on the ropes. His humiliating failure last month to create a new coalition confirmed what the country's political establishment already knew - the initiative in shaping the new *constitution has shifted* squarely to Congress.

The President's dramatic reversal was set in train on October 8 when he promised in a nationwide television address to shake out his Cabinet, close ministries and present a coherent national policy of reform.

After lengthy negotiations with party leaders, he ended up with only one minister leaving the Government and a minor reshuffle.

This all too public disaster has undermined the two principal pillars of his political support - the military and the junior coalition partner, the right-wing Liberal Front Party (PFL).

General Leonidas Pires Goncalves, the Army Minister, has publicly pledged that the armed forces will back the recommendations of the Constitutional Assembly, *even if it votes for a* parliamentary system, which he personally opposes.

Mr Aureliano Chaves, the Energy Minister and the PFL's contender for the presidency, has promised only conditional support to the Government until the Constitutional Assembly completes its recommendations, adding that a speedier "transition to democracy" is needed - a euphemism for early *presidential elections.*

If further evidence of the President's faltering position was needed, it came last Friday when the Consitutional Assembly's key drafting committee voted by 57 to 36 to introduce a parliamentary system.

For Mr Sarney, whose prime objective, at the cost of all others - not least the economy - has been to win a five-year term of office under a presidential *system of government*, all appears lost.

The assembly vote was more a reflection of the level of dissatisfaction with the powerless Sarney administration than enthusiasm for a parliamentary system.

It is still possible that the defeat could be reversed when it goes to the definitive plenary sessions late this year. But if the *parliamentary supporters fail*, the odds are that the assembly would vote for early presiden*tial elections in November* 1988 or possibly sooner.

Repeatedly defeated in the left-weighted constitution drafting committee, the conservative right, business and the military now appear to be putting their faith in a move to scrap the draft document and replace it with an entirely new text *pledged to support free enter*prise and presidentialism. This is motivated by mounting anxiety *over* the contents *of* the draft constitution rather than a desire to rescue the President.

Most of all, business interests are alarmed at a series of successes won by the unions. These include liberal strike provisions, a shorter working week and, most radical of all, a job-*for-life guarantee for those em*ployed by a company for more than three months - a move that industry claims could bankrupt thousands of small businesses.

"The text is a romantic explosion completely unconcerned with economic realities," Senator Roberto Campos, a leading proponent of an entirely new substitute draft, said.

Scrapping the draft may prove a near impossible task, however. *To succeed, opponents* will need 280 votes of the 559-member plenum and many uncommitted congressmen would prefer to accept an inadequate document if, in return, power can be wrested away from Mr Sarney to the legislature.

Thrust into power from the vice-presidency on the death of Mr Tancredo Neves in 1985, Mr Sarney's *declining power owes* much to his fruitless search for political consensus to legitimise his government. In fact, the President could have chosen to govern through decree - the legacy of the military dictatorship - but he has proved unable or unwilling to do so.

In part, at least, this is the *fault of the dominant Democrat*ic Movement Party (PMDB), which has refused to offer any *economic policy beyond utopi*an demands for social reform and a rejection of recession. The right, on the other hand, will neither abandon the paternalistic privileges of ministerial power, nor take responsibility for failing to deliver its fruits to an increasingly restive populace.

Brazil has equally failed to produce any articulate opposition. So fierce is the power struggle, the formulation of realistic *policies to cope with* the mounting economic crisis has been abandoned by all sides.

With monthly inflation again approaching double figures, growth down to 2 per cent of *gross domestic product and un*employment and disinvestment mounting, Brazil - not to mention its foreign creditors - is increasingly desperate for someone to take control.

Under these circumstances, vesting power in a parliament and prime minister (which could happen as early as next spring), looks unconvincing. Brazil has no tradition of party discipline nor clearly defined ideological camps. The most recent parliamentary constitution, under President Joao Goulart in the early 1960s triggered chaos and the coup from which the country is only now painful*ly emerging*.

Polls suggest that a new, directly elected president is the option that appeals most to the the Brazilian people. But if the present incumbent has been found to have no clothes, his potential successors are little more than ragged.

Increasingly, ordinary Brazilians are calling for a "caudillo" - a messianic strong man in the mould of Getulio Vargas - to come to the rescue of the nation. The only such candidate is Mr Lionel Brizola, the demagogic left-leaning ex-governor of Rio de Janeiro.

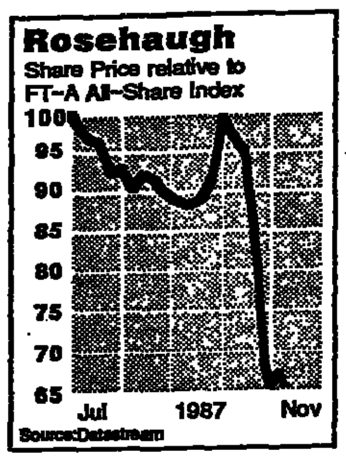
If that were their electoral choice, it would prove the ultimate test of the military's commitment to stay in its barracks.

The commonplace view is that the Sarney era is all but over. In the indefinite interim, however, *no successor appears in sight.*

THE LEX COLUMN

Counting the cost of intervening

The weekend feeling that the market was steadying has proved short-lived. Left to its own resources by Tokyo's holi*day yesterday, London fell* back to exactly 1,650 on the FT-SE 100 index as Wall Street opened, and ended only 4 points better. This is the lowest close in the current bear phase, and is worryingly consistent with a pattern of continued drift after the initial crash.



Autumn statement

The Chancellor's autumn statement might have been written by any of a number of City economists, so closely were its predictions in line with consensus forecasts. Nor did Mr Lawson extend himself much beyond the *minimum* he is obliged to mention. With no more than passing reference to the falls in *international stockmarkets*, the speech had little in it for UK markets to latch on to. A slowing in economic growth next year to 2½ per cent is hardly reckoning on a world recession, which is some comfort. A rise in the current account deficit to £3.5bn next year, while disappointing, was not beyond the bounds of expectations. And, of course, the UK trade deficit is nothing like the US one.

What took the shine off the gilt market yesterday was the prospect of the funding necessary to sterilise the high level of foreign exchange intervention revealed in the official reserves data. The joy of a PSBR at only £1bn is greatly diminished if new gilt issues must stay high just to offset intervention. Nor is there much point in selling such gilts to foreigners who in turn are buying sterling. Indeed, *Mr Lawson could* cobble together a credible intellectual argument for modifying the whole policy of fully funding intervention. Yesterday's statement was not, perhaps, the time to announce a change. Possibly, tonight's Mansion House speech will be.

Perhaps more *disturbing* is the thought that such huge intervention - well above outside estimates - seems to have had *little effect on the currency* markets. That has doubtless not been lost on the Bundesbank, which seems to have just about given up on intervention in any case. If interest rates cuts have to take the place of intervention in the effort to support the dollar, neither the UK nor West Germany appear willing to move until there is definite news on the US budget deficit. The Bundesbank yesterday avoided the problem of indicating an interest rate policy by refraining from setting a securi*ties repurchase* tender. In the UK, with the *sterling* index close to 75 and the current account deficit rising, exporters cannot be enjoying life.

BP

The BP issue is still casting its malign shadow over the London market. With the *old* shares closing another 8p lower yesterday at 249p, the point is already *being reached where* the only support for the new shares is the Bank of England's 70p floor. Meanwhile, the venerable practice of bed and breakfasting for tax purposes, of fresh relevance now that shares are falling again, has received unwelcome publicity from the huge exercise put together for a group of *the BP sub-underwriters by* Phillips & Drew.

To an extent, the P & D move *has to be admired for its audaci*ty. Now that deals have to be publicised through the market-making system, even to carry a block of shares overnight risks finding that the market has moved the wrong way by the morning. But by doing the deal at 70½p, that risk was passed on to the Bank of England. The obvious snag, that the market price was then some 10p higher, was addressed by making the *deal so big at 105m shares* that other market-makers would be puzzled to put a price to it.

Although the Stock Exchange apparently regards the deal as legitimate, the taxman is bound to view it more critically. For the institutions who have chosen to crystallise a loss of 50p per share in this way, the implication presumably is that they either do not expect the shares to recover in the short term, or if they do would aim to retain them as a core holding.

Meanwhile, any further fall in the fully-paid BP price would leave the value of the new shares wholly dependent on the Bank's floor price. By then, the attractions of the stock as a call option over the next 18 months would be much less important than the 70p put option being provided by the Bank. The value to be attached to that option would presumably decline over its life; and if the Bank continues to reserve its position on whether that life will be one month or two, the sums could become decidedly interesting.

City property

The crash in share prices over the last fortnight, and increas*ing staff layoffs* in financial institutions, has raised real doubts about the future of the City of London's property boom. Nowhere is this more evident than in the collapse of the share price of Rosehaugh, whose Broadgate project in the City is Europe's biggest office development.

Unlike most normal property companies, which often trade at a discount to net asset value, *Rosehaugh's shares have com*manded a premium of several times net asset value for several years because of Mr Godfrey Bradman's reputation for financing and developing major City projects on a relatively small capital base. However, Rosehaugh's shares have dropped from £11¾ earlier this year to a shade above £5, and yesterday's news of a more than doubling in net asset value to £260m and a 85 per cent rise in earnings per share went virtually unnoticed.

Rosehaugh has the biggest relative exposure to City property development of any major UK property company, and with international firms such as Shearson Lehman, Salomon Brothers and Chemical Bank laying off staff, investors are beginning to wonder whether there will be enough new tenants to fill its ambitious developments. On the other hand, its client list reads like a "Who's Who" of the international banking and broking community, so there is little fear that they will not be able to pay their bills. Meanwhile, much of the financing is non-recourse in nature, which means that Rosehaugh has laid off much of its risk. There is still something to be said for the conventional wisdom that if the property sector is heading for trouble, it will show up in the residential market and not City property.

China gives US undertaking to prevent Iranian arms sales

BY RICHARD JOHNS IN LONDON

CHINA HAS given an undertaking to the US that it will take steps to prevent its weaponry from being supplied to Iran, a senior US envoy said yesterday.

Officials conceded that Chinese-manufactured military equipment might have been acquired by the Islamic republic, but continued to deny that it *was being sold directly, Mr Mi*chael Armacost, under-secretary for political affairs at the US State Department, told a press conference in Peking.

His mission was evidently prompted by the strike on the Sea Isle City, the US-registered Kuwaiti-owned tanker, which was hit by a Silkworm missile on October 16 and Washington's efforts to get agreement in the UN Security Council on an arms embargo against Iran.

The Chinese officials referred to by Mr Armacost were repeat*ing an assurance given in* September in a television interview by Mr Zhao Ziyang,the Prime Minister, who did not explain how supplies could be stopped.

China is reckoned by the Administration to have emerged as the largest supplier of weapons to Iran with sales worth $1bn last year. Tehran is believed to have received anything from 40 to 75 Silkworm mobile anti-shipping missiles. They have a range of at least 50 miles and constitute one of the main threats posed by Iran to neutral shipping in the Gulf.

In Baghdad, the Mojahedin Khalq, the main Iranian opposi*tion group, issued a statement* saying that Iran had signed a $400m contract early last year for Silkworm missiles and that the first deliveries arrived at Bandar Abbas port in March 1986.

A Silkworm - the Chinese version of the Soviet Styx missile - was also generally believed to have been responsible for the strike against Kuwait's offshore Sea Island terminal on October 22. *The Kuwaitis say that three* were fired against its oil installations last month.

Yesterday, Mr Guan Zi Huai, China's ambassador to Kuwait, blamed Iran for the missile attack which put out of action Kuwait's deep sea terminal but denied that his country had supplied the weapon.

In its protestations of innocence, Peking has even gone so *far as to suggest* that the Silkworm missiles deployed by Iran had been captured from Iraq.

So far China has given little indication that it is prepared to join in an arms embargo. But it might formally do so if the Soviet Union subscribed to one, in the opinion of Western diplomats.

Mr Javier Perez de Cuellar, UN Secretary General, held separate meetings on Monday *night in New York* with the delegates of Iraq and Iran to discuss their governments' replies to his latest peace proposals.

No details of their responses were revealed, but it is clear that Iran has not fully accepted the terms put forward as the basis of a ceasefire.

Iran, meanwhile, claimed that an American frigate,the USS Carr, had fired on an Indian vessel and killed a member of the *crew on Sunday. The allega*tion followed the Pentagon statement on Monday that one of its warships had fired warning machine-gun shots at one of three Iranian patrol boats which had approached it in a threatening manner near the island of Abu Musa.

W Germany shocked by airport police killings

BY ANDREW FISHER IN FRANKFURT

WEST GERMAN police were in shock and mourning yesterday for two colleagues shot dead at a night-time political demonstration at Frankfurt airport. Nine other policemen were injured.

It was the first time police have been killed at a political demonstration in post-war West Germany.

Even to West Germans accus*tomed to violence since the pro*test movements of the late 1960s, the shootings have come as a reminder of the ugly undercurrents in part of German society.

The shots were fired late on Monday night as police tried to quell an increasingly violent demonstration to mark the sixth anniversary of the destruction of protesters' huts on Frankfurt's western runway.

Police also faced an assault of Molotov cocktails and steel ball bearings flung by catapults. The demonstration was later joined by about 200 masked agitators.

Their presence has again raised the question whether masks should be banned at demonstrations. Mr Kurt Rebmann, the Federal Prosecutor, said those defying such a ban should be imprisoned. But he doubted that this would have prevented the shootings.

The Federal Prosecutor's Office in Karlsruhe said yesterday that a nine millimetre police pistol had been seized from a property in Frankfurt and the occupant arrested. The pistol had been stolen nearly a year ago from a policeman at a violent demonstration in Hanau and is being studied to see if it was used in the shootings.

The two policeman killed were Klaus Eichhoefer, 43, a chief superintendent, married with three sons, and Thorsten Schwalm, 23, unmarried, a constable in the riot police.

The killings did not seem to be the work of Red Army Faction terrorists, said Mr Alexander Prechtel, a spokesman for the Prosecutor's Office. The risk of arrest at the demonstration meant that *terrorists* were unlikely to have been involved.

Ugly scenes of violence were a feature of the runway's construction in the early 1980s, marking an escalation from peaceful opposition to the pulling down of woodland for the airports extension.

Although terrorist killings have become rare, street violence has increased.

Resignations hit Willis Faber

BY NICK BUNKER IN LONDON

A FRESH WAVE of staff resignations has hit Willis Faber,the second biggest British-based insurance *broking group, in the* wake of its merger this summer with Stewart Wrightson, a fellow broker.

News leaked out yesterday that five former executives of Wrightson have either resigned in the last fortnight or plan to leave the combined group.

Among them is Mr Tony Fell, who is known at *Lloyd's of London* as "the railroad king" because he handles insurance accounts for perhaps 20 American railroad companies.

Mr Fell joined Wrightson in September 1986, along with Mr Nigel Chamberlain and Mr Graham Addiscott, after they left C.E. Heath, another Lloyd's broker. They are widely regarded *as one of the London market's* leading teams of US property/casualty insurance brokers, dealing with Fortune 500 American corporations.

Mr David Palmer, Willis's chairman, confirmed yesterday that all three have told the group that they intend to leave.

He said Mr John Palmer-Brown and *Mr Peter Butler*, who led Wrightson's aviation team, had resigned. A further *two dozen junior aviation staff* are believed to be going with them.

At Wrightson, they handled insurance accounts including United Airlines and TWA of the US, Air Canada, KLM, and Swissair.

Mr Palmer declined to comment in detail about the five executives' reasons for leaving, but *said that "status might* have had something to do with it" in the case of the aviation brokers.

Asked whether the price paid by Willis for Wrightson now looked too high, he said: "It was a full price and now it is a bit fuller." The departures would have little impact on the group's *profits, he said.*

There was widespread speculation in the London insurance market, however, that the executives would take significant business with them. Within the market, *it* was rumoured that they might end up by joining Nicholson Stewart Wrightson *(NSW), which Mr Palmer said* was "a possibility."

Willis' shares lost 29p to close at 243p last night.

Dollar's fall continues

Continued from Page 1

dex closed 68.8 points lower at 1,652.9 on concerns over some private investors' inability to settle their accounts.

Bond markets, however, advanced as investors switched out of equities into government securities. In London, long bond prices improved by almost one point, and on Wall Street the Treasury's benchmark 30-year bond also rose a point.

The dollar fell momentarily below DM1.70 in London, its lowest-ever point against the D-Mark, before rebounding later in the day as investors who had sold the dollar short realised their gains. It closed in New York at DM1.7170 and Y137.50. Sterling closed in New York at $1.7420.

There is a widespread belief in financial and equity markets that White House and Congressional negotiators will not be able to reach an agreement on cutting the US budget deficit before the weekend, and perhaps until early next week. This delay, together with general doubts over the negotiators' ability to agree on deep cuts in Federal spending driving market sentiment.

Yesterday's weakness of the dollar added to the strengthening of the D-Mark has intensified strains in the exchange rate mechanism of the European Monetary System, and economists now believe it will prove difficult for European governments to avoid a realignment of the system. The Mark and the guilder are trading close to the top of their ranges, while the French franc is now close to the bottom of its prescribed trading range, at around FFr3.4975 to the D-Mark.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	21	70	Dubrovnik	S	17	63	Malta	S	26	79	Rhodes	S	17	63
Algiers	C	24	75	Edinburgh	C	10	50	Manchester	C	9	48	Rio de J'o	S	28	82
Amsterdam	S	12	54	Faro	F	18	64	Manila	S	31	88	Rome	S	20	68
Athens	C	14	57	Florence	S	18	64	Melbourne				Salzburg	C	9	48
Bahrain	S	31	88	Frankfurt	C	10	50	Mexico City	S	25	77	San Francisco	S	18	65
Bangkok	S	33	91	Funchal	C	22	72	Miami	C	29	84	Seoul	S	14	57
Barcelona	F	19	66	Geneva	C	11	52	Milan	S	17	63	Singapore	R	31	88
Beirut	S	16	61	Gibraltar	R	18	64	Montreal	C	6	43	Stockholm	S	8	46
Belfast	C	11	52	Glasgow	C	11	52	Moscow	S	4	39	Strasbourg	C	18	64
Belgrade	C	7	45	Guernsey	S	12	54	Munich	C	7	45	Sydney	S	36	96
Berlin	C	8	46	Helsinki	C	6	43	Nairobi				Taipei	C	25	77
Biarritz	C	12	54	H. Kong	C	23	73	Naples	R	12	54	Tangier	F	18	66
Bombay				Innsbruck	F	11	52	Nassau	C	30	86	Tel Aviv	S	21	70
Bordeaux	S	16	61	Inverness	F	11	52	New Delhi	S	30	86	Tenerife	F	25	77
Brussels	C	7	45	Islamabad	S	30	85	New York	C	14	59	Tokyo	C	25	79
Budapest	F	7	45	Istanbul	S	13	55	Nice	S	21	70	Toronto	C	18	59
B. Aires	C	10	50	Jakarta	R	34	93	Nicosia	S	18	64	Tunis	F	25	77
Cairo	S	25	77	Jersey	S	13	55	Oporto	S	21	70	Valencia	R	[illegible]	[illegible]
Cape Town				Jo'burg	S	28	82	Oslo	Fg	-1	30	Venice	S	15	59
Caracas	S	28	82	Lima	S	21	71	Paris	C	11	52	Vienna	C	8	46
Casablanca	Dr	18	64	Lisbon	C	15	59	Peking				Warsaw	F	6	43
Chicago	C	22	71	London	C	11	52	Prague	C	7	45	Washington			
Cologne	F	10	50	Los Angeles	R	20	68	Reykjavik	F	6	43	Zurich	C	10	50
Copenhagen	C	10	50	Luxembourg	C	8	46								
Corfu	C	18	64	Madrid	R	15	59								
Dallas				Majorca	F	21	70								
Dublin	C	12	54	Malaga	G	19	66								

Readings at mid-day yesterday
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain
S-Sun Sl-Sleet Sn-Snow T-Thunder

UK Government lifts spending targets

Continued from Page 1

Output next year was likely to rise by 2½ per cent, down from 4 per cent this year but faster than in most other major industrial countries, while, *if* the North Sea was excluded, the increase was likely to be 3 per cent.

His confidence drew strong approval from Conservative MPs, but equally vigorous criticism from the Labour Party. Mr John Smith, Labour's spokesman, accused Mr Lawson of "complacency and self-congratulation". Mr Gordon Brown, another Labour spokesman, said that the statement had been a wholly wasted opportunity to *increase public investment.*

The response in the City of London was muted, with the equity and foreign exchange markets more preoccupied with the problems faced by the US in cutting its budget deficit and with the continuing slide in the dollar's value.

Mr Lawson was careful not to give any clues as to whether he is preparing an early reduction in interest rates, but figures yesterday showing a massive increase in Britain's foreign exchange reserves intensified speculation about an early reduction. Lower interest rates, *which might follow Mr Lawson's* speech on monetary policy this evening could also help to stabilise the London stock market, which registered further sharp falls yesterday.

The City of London appeared suprised, however, by the Treasury's acknowledgement that the inflation rate is likely to edge up to 4½ per cent at the end of next year from the 4 per cent likely over the next few months. Mr Lawson said that this reflected the prospective substantial rise in nationalised industry prices next spring.

FINANCIAL TIMES
Wednesday November 4 1987

Texas Air dives deeper into red in third quarter

BY ANATOLE KALETSKY IN NEW YORK

TEXAS AIR, the heavily-indebted holding company which owns the biggest airline system in the US, lost money heavily in the third quarter as its main operating subsidiaries, Eastern and Continental Airlines, continued to suffer from low morale and consumer dissatisfaction, leading to large-scale desertions by business travellers.

Texas Air lost $72.8m, or $1.97 a share, after tax in the third quarter, increasing to $200.5m, or $5.75, the company's total losses for the first nine months of this year.

In the third quarter of 1986 Texas had a net profit of $128.4m, or $3.47, restated to include the losses suffered by Eastern Air Lines, People Express and Frontier Airlines, which the company did not yet own at that time.

Texas Air's big losses were attributable to poor performance in both the Eastern and Continental businesses. Eastern's results, reported last week, showed a net loss of $67.4m, compared with a net profit of $17.9m the year before.

The company explained the losses partly by a public relations campaign waged by the pilots' union against Texas Air's traditionally anti-union management.

However, Continental, a non-union carrier, also turned in a disappointing performance, with a net loss of $10.2m in what is seasonally the airline's strongest summer quarter. Last year Continental had net income of $116.2m, restated to include the results of People Express, New York Air and Rocky Mountain Airlines.

Mr Frank Lorenzo, Texas Air chairman, drew comfort, however, from the improvement in Continental's fortunes since the second quarter, when it reported a loss of $71.1m.

● NWA, meanwhile, whose principal subsidiary is Northwest Airlines, increased third-quarter net earnings to $87.34m, or $2.89 a share, from $59.73m, or $2.32, a share in the same period last year. This boosted the nine-month figure to $102.99m, or $3.50, against $67.18m, or $2.80.

Mr Steven Rothmier, chairman, said passenger revenue per available seat mile had increased 16 per cent during the three months and cargo revenues had set an all-time high for a single quarter.

Revenues in the quarter advanced to $1.44bn, against $1.10bn, bringing the nine-month turnover figure to $3.93bn, compared with $2.44bn.

James Buchan on the latest act in a US oil group's courtroom saga

Texaco loses showdown in Texas

THROUGHOUT the summer, Texaco was riding high. The third-largest US oil company, forced into bankruptcy by a $10.3bn damage judgment awarded by the Texas courts, was gaining support among lawyers all over the country.

The Securities & Exchange Commission (SEC), the federal regulatory agency, and the key states of Delaware and New York had filed briefs with the Texas Supreme Court.

They said their laws had been misapplied by the Texas lower courts which awarded the damages to Pennzoil, Texaco's home-town Texan rival in the 1984 battle for Getty Oil. Eighteen other states came out in support.

But that don't mean nothing in Texas.

On Monday, the highest court in the states threw out Texaco's appeal. In a two-sentence ruling that stunned everybody remotely connected with the case, the court refused even to hear Texaco's arguments on the appeal for writ-of-error (meaning the lower courts made mistakes).

"This refusal to hear our appeal defies both logic and law," said Mr James Kinnear, Texaco chief executive. Even Mr Hugh Liedtke, Pennzoil's burly and incendiary chairman, seemed shocked into silence. He merely said he was "gratified" by the decision.

The decision leaves Texaco facing devastation and with only two obvious avenues of escape. The company said it would seek redress in the US Supreme Court "to rectify the distortions of justice that have figured so prominently in this case."

Texaco has consistently striven to pull the case out of the Texas courts, where it believes it cannot gain a fair hearing. Though founded originally as the Texas Fuel Company in 1902, Texaco soon moved to New York, and it was consistently portrayed by Pennzoil's counsel as an arrogant out-of-towner, and a Yankee to boot.

The second option is to reopen the informal negotiations with Pennzoil that broke down when the SEC came out in Texaco's defence at the end of June. But yesterday's stock market was sending furious signals about how much Texaco will have to pay.

Texaco stock was down 16 per cent at the opening, and Pennzoil was up 14 per cent. Texaco is now valued in the market at only $7bn.

Hugh Liedtke, chairman of Pennzoil

There is widespread belief in the market that Mr Liedtke, who is 65 and has delayed retirement to fight the case, may no longer be satisfied with the $4.1bn he said was his price for settlement.

For the moment, Texaco is protected from Pennzoil and other creditors by the terms of its bankruptcy filing – and on Monday it moved to reassure its creditors and trading partners.

"Texaco's business will proceed in its normal course," the company said. "We will continue to pay trade creditors and to meet our other financial obligations on a current basis."

Mr Liedtke and Pennzoil won the mammoth judgment in November 1985 after convincing a Houston jury that they had a binding contract to buy a large interest in Getty Oil which Texaco had interfered with by taking over the whole company.

Pennzoil demanded cash to replace through exploration the 1bn barrels of oil it would have received in the Getty Oil deal – and was awarded it. Pennzoil also received punitive damages.

The judgment was upheld by an appeals court in February of this year, eventually sending Texaco into bankruptcy in April.

To get to the Supreme Court, Texaco will have to convince four court justices that the Texas judiciary made mistakes on matters of federal and constitutional law.

To judge from Mr Kinnear's statement on Monday, Texaco's counsel will make three main arguments:

● Part of the agreement between Getty Oil and Pennzoil violated an SEC rule. The violation means that Pennzoil has "no contractual rights" to an interest in Getty Oil.

● The Texas courts failed to apply the laws of New York and Delaware, which are the key jurisdictions for the case. Both companies are incorporated in Delaware and the Getty Oil-Pennzoil negotiations were held in New York.

"The Texas Supreme Court's failure to review this case also raises serious questions about the Texas legal system's ability to meet the constitutional requirement of giving full faith and credit in judicial proceedings to the laws of other states," Mr Kinnear said.

● The Houston judges were biased. "The trial record also shows repeated instances of clear and unmistakable bias on the part of the trial judges," Mr Kinnear said. Such bias raised questions of "constitutional due process."

Texaco's counsel is likely to concentrate on the $10,000 paid by Mr Joe Jamail, Pennzoil's lead lawyer, to the campaign fund of the original judge, Mr Anthony Farris. Judge Farris was later forced by ill health to retire from the case.

Split payment deal for Suez investors

BY GEORGE GRAHAM IN PARIS

THE FRENCH Government will attempt to retain the loyalty of the 1.6m investors in the newly privatised Suez group by allowing them to split the payment for their shares.

The Finance Ministry, which last week delayed the beginning of dealings in Suez shares because of the collapse in world stock markets, yesterday said trading would begin next Monday but that French shareholders would only have to pay half the FFr317 ($54.7) a share price immediately.

The remaining FFr158.50 will be deferred for a year. However, the shares will be traded on a fully-paid basis so that anyone selling shares straight away will have to make up the difference.

Suscribers in the FFr1.85bn international share offering, covered by a separate contract, will not be offered the split payment facility.

The ministry said it had decided to allow deferred payment on the French tranche to take account of the sharp fall in financial markets since the Suez offer period closed on October 17.

However, French bankers said the procedure would be "horribly complicated" and would add considerably to the costs of the Suez flotation. Suez itself is understood to have been opposed to the procedure chosen.

The Finance Ministry has been considering partial payment procedures for some time and had hoped to use the technique for the promised privatisation of UAP, the insurance group.

Chen plans to launch new computer

By Our Financial Staff

MR STEVE CHEN, the US supercomputer designer who recently left Cray Research, said he was forming a new company that intended to build a computer by the early 1990s that would be 100 times faster than any known today.

Mr Chen, whose new company is called Supercomputer Systems, gave few details about the proposed new machine but said it would not include Cray technology.

At the time Mr Chen left Cray, Cray said he would have personal non-exclusive licences to technical developments he achieved at Cray. But this week's announcement indicates Mr Chen will develop new proprietary technology and align his company with partners in components and application areas.

Cannon misses payment

BY RODERICK ORAM IN NEW YORK

CANNON GROUP, the financially troubled film production and distribution company with operations in the US and UK, has missed a $2.56m interest payment on an issue of subordinated notes.

It said, however, that it intended to make the payment within 30 days before the group was considered in default. It added that its $300m property sale and leaseback agreement with Renta Immobilaria of Spain was proceeding.

The deal, agreed last month with the Madrid-based property company, was designed to ease some of the film group's severe cash flow problems.

Thanks to the sale and leaseback of its cinemas, Elstree studios in England and corporate headquarters in Los Angeles, it has already made payments totalling $6.55m to a consortium of US banks led by First National Bank of Boston. Cannon said it would be able to draw on further funds generated by the agreement.

The interest payment missed was on 12⅜ per cent 10-year notes issued in November 1984. The notes carried warrants to buy Cannon shares at $25, but, as a measure of the company's ill fortunes, its shares were trading yesterday at $3⅞, up $⅛ from the previous close.

Rio Algom chief leaves

By Our Financial Staff

RIO ALGOM, the Toronto-based metals mining group controlled by RTZ of the UK, has replaced Mr George Albino as chairman of the company, effective immediately.

The company refused to discuss the move. It did not say if Mr Albino had resigned or was removed from the position. "It was a matter between the board and himself," said a spokesman.

Mr Ross Turner, a director of Rio Algom and former chairman of Genstar before it was acquired by Imasco last year, is taking over as chairman and chief executive officer.

Nedbank rises sharply

BY JIM JONES IN JOHANNESBURG

NEDBANK, South Africa's third-largest bank, has recovered from the setbacks of the past two years and has reported higher profits for the year to September 30 1987, and a moderate increase in advances to customers.

The bank's total assets increased to R14.3bn ($4.21bn on the financial rate) at the end of September from R13.8bn a year earlier, and advances rose to R9.8bn from R9bn.

The operating profit before bad debt provisions was R243.4m against R200.8m, and a sharp drop in bad debt provisions resulted in the pre-tax profit rising to R184.7m from R105.8m.

Professor Owen Horwood, Nedbank chairman, said that all the group's divisions were now operating profitably, with the exception of the factoring operation. The merchant banking subsidiary has been particularly active this year, with a spate of new issues on the Johannesburg stock exchange.

However, the exchange's recent setback has caused several companies to defer new listings. Professor Horwood added that the improvement came through "consolidation and correction".

The year's dividend has been raised to 33 cents from 30 cents.

US insurer increases operating net by 23%

By Deborah Hargreaves in New York

IMPROVED earnings from property and casualty insurance helped Cigna, the large Philadelphia-based insurance group, lift third-quarter operating net income by 23 per cent to $163.3m, or $1.94 per share, from $132.3m, or $1.52 a year earlier.

Premium and investment income rose to $3.49bn and $865.4m from $3.22bn and $803.1m respectively a year earlier.

Property-casualty insurance operations saw earnings double to $118.4m from $54m in the 1986 period. This rise helped to offset losses from the company's expansion of its healthcare network.

After capital gains, net of discontinued operations and tax credits, final third-quarter net was $191.3m or $2.30 a share against $212.5m or $2.51.

For the nine-month period, Cigna reported operating income of $445.4m or $5.19 a share, up 47 per cent from 1986's $303.6m or $3.55 a share. Premiums and investment revenues grew to $9.38bn and $2.58bn from $8.74bn and $2.42bn respectively.

Final net income - after capital gains, tax credits and net of discontinued operations - was $593.6m or $7.03 a share against $500.2m or $6.06.

Cigna said it had repurchased 723,500 of its shares at an average price of $57 each. The company said it continued to be well-capitalised in spite of recent stock market events.

Meanwhile, USF&G, another US insurance company, posted third-quarter operating income of $91.9m, or $1.29 a share, a rise from $70.4m, or $1.04, a year ago. The company's nine-month earnings grew to $285.8m, or $3.85 a share, from $173.7m, or $2.64, a year earlier.

Strong European sales buoy VW

BY ANDREW FISHER IN FRANKFURT

VOLKSWAGEN, the West German motor group, lifted group net profits by 6.5 per cent in the first nine months to DM393m ($230m) following strong domestic and European sales.

Although VW said that last month saw a continuation of the positive business trend, analysts noted that last year's January to September performance was affected by problems in South America, the weak dollar and new model costs.

The 1987 profit for the period was still below the DM424m raised in 1985.

VW's total turnover increased by 2.7 per cent to DM38.4bn in the 1987 period. While worldwide production eased by 1.4 per cent, to 2.06m vehicles, output from German plants was 0.6 per cent higher, at 1.25m units.

Total European production has been increased by nearly 5 per cent, to 10,000 vehicles a day.

In North and South America, however, VW has experienced tougher market conditions.

The weak US market has led to extensive promotional deals by all competitors. Since the lower dollar also forced VW to raise prices, its deliveries in the US were down by 15.4 per cent at 184,000 vehicles.

But the success of VW's low-priced Fox car, built in Brazil, has allowed a recovery since April from the 39 per cent drop in deliveries recorded in the first quarter.

VW said the situation in South America had worsened. Autolatina, the joint venture between VW's and Ford's Brazilian and Argentinian operations, had stopped supplying the market in Brazil as the Government was not allowing adequate price increases.

In the still-buoyant German market, VW raised its sales by 7 per cent, to 677,000 vehicles, well above the industry's average increase rate. It thus lifted its market share by 1.5 percentage points, to 29.9 per cent.

The Golf hatchback and the new Audi 80 and 90 models sold especially well.

Total deliveries within Europe, excluding Germany, were up by 9.6 per cent, to 318,000 vehicles, helped by VW's Seat subsidiary in Spain. After Italy, Spain has become the group's second most important European market.

VW was due to have given analysts and the press a rundown on its performance on Monday in Frankfurt, but the presentation was cancelled at short notice.

Although the Finance Ministry has made no clear statement on the matter, the slide in share prices is believed to have led to a renewed delay in plans to sell the Government's remaining 16 per cent stake.

Akzo quarter hit by fibres loss

BY OUR FINANCIAL STAFF

AKZO, THE Dutch chemicals and fibres group which recently announced plans to dispose of its US consumer products operations, yesterday published a calamitous set of third-quarter results.

At the pre-tax level, profits for the three months ended September have tumbled by almost a third to Fl 219m ($114m). Analysts in both Amsterdam and London had predicted a setback but the result was worse than most expected.

Akzo blamed continued weak trading in its man-made fibres division for most of the downturn, which left pre-tax profits for the nine months trailing at Fl 815m, against Fl 966m.

Man-made fibres fell into a loss of Fl 24m for the quarter, reducing the division's profits for the nine months to Fl 45m, in contrast to the Fl 226m achieved a year ago.

Akzo said the disappointing performance would mean that profits overall in 1987 would be lower. On the Amsterdam bourse the shares suffered a severe shakeout, tumbling by Fl 18 to Fl 99.

Akzo said the losses in fibres reflected falling market prices and rising raw material costs. Synthetic fibres took the heaviest knocks with the group forced to cut trading margins in order to maintain market shares.

However, the group said it expected fibres to claw back into profit in the final quarter. "The traditional summer slump has been much more severe this year, but we have seen a recovery in September."

Elsewhere, earnings from chemical products and coatings rose by 4 per cent and 18.5 per cent respectively but operating profits in the pharmaceuticals division fell by 10 per cent, the group said.

Akzo Consumer Products, which the group is planning to sell to Sara Lee Corporation of the US for Fl 1.25bn, lifted operating profits by 26 per cent, to Fl 29m.

The disposal should be completed by December, and Akzo expects to make an extraordinary gain of Fl 450m from the sale of the unit, in which Royal Dutch/Shell has a 49 per cent stake.

The Stauffer Chemical Company's specialty chemicals unit which Akzo acquired in June for $625m - its biggest ever takeover - started making a net profit contribution which would eventually exceed that of the disposed consumer products business, the group said.

In spite of the earnings fall in the man-made fibres division, Akzo does not plan to reduce activities in the sector.

The group said fibres, and textile fibres in particular, were an important cash generator.

Net income in the third quarter dipped to Fl 155.8m from Fl 195.3m and net earnings for the nine months totalled Fl 526.8m, down from Fl 6.34bn a year ago.

Akzo's turnover for the nine months was Fl 11.5bn, against Fl 11.8bn. For the third quarter turnover was Fl 3.9bn, compared with Fl 3.8bn.

Akzo's net income per share for the third quarter amounted to Fl 3.88, with Fl 13.1 for nine months. The comparable figures a year ago were Fl 4.87 and Fl 15.8.

OMV keeps to timetable for share issue

By Our Financial Staff

OMV, Austria's state oil group, plans to go ahead with its share offering in spite of the recent turmoil in the world's financial markets.

It said yesterday that the Austrian stock market had not been hit as hard as many others in Europe and that the weaker dollar would help cut costs.

Austrian banks and other investors have already placed 341,000 advance orders for the OMV share issue, which represents 25 per cent of the group's capital.

Analysts said that Austria had only a limited number of industrial shares on the open market, which helped to make the OMV issue attractive to domestic investors.

The Government will sell 500,000 new shares in the offering, which is expected to raise Sch2.5bn ($200m), with 60 per cent allotted in Austria and the rest in West Germany, the UK and Switzerland.

Restructuring at ESAB helps lift profits 39%

BY SARA WEBB IN STOCKHOLM

ESAB, the world's leading manufacturer of welding equipment, increased its nine-month profits by 39 per cent to SKr140m ($22.8m) after financial items, helped by improved cost efficiency, plant closures and stabilised markets.

Full-year profits (after financial items) are expected to exceed the 1986 figure of SKr150m. However, ESAB warned that it still planned to bear restructuring costs in the final period of 1987 and would not give a detailed profit forecast.

Mr Kjell Johansson, finance director, said: "We planned to bear all our restructuring costs in 1987 and expected the positive effects to show up in 1988, although we are already reaping the benefits."

The group has trimmed sales and administration costs in the last 10 months. The closure of two production units, in Finland and Sweden, has helped to fill capacity at its other electrode factories.

The market for standard machines had shown a considerable improvement and should continue to be strong, Mr Johansson said.

The group's order intake during the first nine months totalled SKr3.02bn, down 5.7 per cent on the comparable period last year, although this is chiefly because the 1986 figure had been boosted by a SKr227m construction order to the Soviet Union.

Group sales slipped by 2.3 per cent to SKr2.84bn.

ESAB said the market for welding products in western Europe had improved slightly, but that the market was still weak in central Europe.

Order intake increased in the period, particularly for standard welding machines.

ESAB said demand for automatic equipment, which had been strong in West Germany and the US, had fallen. However, demand for cutting equipment had improved in the US, which compensated for lower orders for automatic equipment.

Strong rise in nine-month earnings at Karstadt

BY OUR FINANCIAL STAFF

KARSTADT, the West German retailer, said parent company profit had risen strongly in the first nine months of the year, in spite of extraordinary costs linked to reorganisation measures.

The company, one of Germany's biggest department store groups, gave no results figures, but said parent company turnover, excluding the travel subsidiary, rose 5.1 per cent to DM6.65bn ($3.88bn).

Profits rose at Neckermann Versand, the group's mail order business and at Nur Touristic, the travel agency unit. Overall, Karstadt expected profits for 1987 as a whole to increase, assuming a satisfactory Christmas season.

Neckermann Versand's turnover in the nine months rose 8 per cent to DM1.20bn. Nur Touristic's turnover advanced by 17.4 per cent to DM1.42bn.

The unit reports an increase of almost 19 per cent in the number of holiday bookings.

Karstadt's parent company staff costs, including pension provisions, rose 2 per cent to DM1.54bn in the nine months. The full-time workforce fell to 48,926 from 49,897 at Karstadt's 158 retail stores.

GA to sell stake in S African subsidiary

By Our Financial Staff

GENERAL ACCIDENT, the UK composite insurer, is selling a 20 per cent stake in General Accident Insurance, its South African subsidiary, to First National Bank (formerly Barclays).

After the sale the British parent will be left with a 51 per cent shareholding in its South African subsidiary.

Mr Ian Bain, General Accident's assistant general manager, said in Johannesburg yesterday that the sale did not represent a divestment as the British parent had agreed to invest the proceeds of the sale in new First National shares.

He added that the sale formed part of the British parent's strategy of taking local partners into its foreign businesses.

Sentrachem ahead at six months

BY JIM JONES IN JOHANNESBURG

POORER MARKETS for fertilisers and crop protection chemicals restrained sales by Sentrachem, the South African chemicals group, in the six months to September 30, 1987. But, although sales to the agricultural sector dropped by 1 per cent, sales of other chemical products rose by 19 per cent.

First-half turnover rose to R593m ($298m), from R539m in the corresponding period of 1986. Interim operating profits before tax and finance charges increased to R47.2m, from R30.4m, and interim pre-tax profits were R30.8m, against R5.4m.

For the last full financial year, turnover was R1.14bn, operating profits were R63.6m and pre-tax profits R18.9m. The group is completing a large scale re-organisation involving the closure or sale of loss-making divisions. The balance sheet has also been restructured and borrowings reduced, following a R100m issue of preferred ordinary shares in August.

First-half earnings were 17.9 cents a share, against last year's 14.2 cents, and dividends have been resumed with the declaration of a 5 cents interim payment.

South African building society maiden result

BY OUR JOHANNESBURG CORRESPONDENT

ALLIED, South Africa's third-largest building society, which converted from a mutual society to an equity-based corporation in March, earned pre-tax profits of R48.5m (US$24.4m) in the six months to September 30.

Half-year interest and operating income was R417.1m and interest payments and operating costs totalled R368.6m. No comparative figures are available as the company was incorporated in its present form only in March.

Several of the country's building societies have taken advantage of changed legislation and have ceased to be mutual societies. During the past half year, Allied acquired a banking licence and, since the end of September, has merged its banking and building society operations.

At present, demand for consumer and industrial finance is sluggish but demand for mortgage loans is comparatively buoyant. First-half earnings were 10.5 cents a share and a maiden interim dividend of 5 cents has been declared.

First-half advance for Associated Furniture

BY OUR JOHANNESBURG CORRESPONDENT

ASSOCIATED Furniture (Afcol), the South African furniture manufacturer, increased turnover in the six months to September 30, 1987 and, as a result, benefited from better capacity utilisation.

First-half turnover rose to R244m ($123m), from R192m in the corresponding period of 1986, the interim operating profit before interest and tax was R18.9m, against R10.2m, and the interim pre-tax profit increased to R16m, from R6.6m.

Turnover totalled R388m in the financial year to March 31, 1987, the year's operating profit was R25.9m, and the pre-tax profit was R17.7m.

The directors believe a good level of sales should materialise over the Christmas season and that the financial year's attributable earnings should increase significantly "barring unforeseen socio-economic developments or industrial unrest."

First-half earnings rose to 64.9 cents a share, from 38.2 cents, and the interim dividend has been lifted to 32.5 cents from 19.5 cents. Last year's total earnings were 100.4 cents and the year's dividend was 50 cents. Afcol is 66 per cent-owned by South African Breweries.

Romatex boosts earnings

BY OUR JOHANNESBURG CORRESPONDENT

ROMATEX, the South African textiles and floor coverings maker, almost doubled profits in the year to June, although turnover grew at a lower rate than inflation.

Sales rose to R552m ($274.6m), from R490m. Some divisions failed to meet planned sales volumes. However, pre-tax profits almost doubled, to R54.5m from R27.8m.

Net earnings increased to 125.5 cents a share from 64.7 cents and the year's dividend has been lifted to 50 cents from 26 cents. Romatex is an indirect subsidiary of the Barlow Rand group.

Carter Holt Chilean unit lifts nine-month profits

BY OUR FINANCIAL STAFF

CARTER HOLT Harvey (CHH), the New Zealand forestry company, says its Chilean unit, Copec Group, has reported a NZ$165.2m (US$99.1m) after-tax profit for the nine months ended September, against NZ$66.4m for the same period in 1986.

Third- quarter net profit was NZ$51m, against NZ$66.6m in the second quarter, and compares with a 1986 third-quarter net profit of NZ$40.1m and a 1986 second-quarter net of NZ$26.2m.

Mr Richard Carter, CHH's executive chairman, said the results of Copec's fishing and forestry companies were outstanding, and other sectors made gains.

He said Chile's national forest product exports were US$407.8m from January to September, compared with US$403m for the whole of 1986. Exports are expected to exceed US$504m for all 1987.

Sales of all main forestry products are increasing steadily, and the industry's main markets are China, West Germany and the US, Mr Carter said.

CHH holds 53 per cent of Copec through its investment company Los Andes.

Peter Marsh looks at the growth hopes of Switzerland's biggest chemicals company

Ciba-Geigy cleans up its public image

FOR Mr Alex Krauer, chairman of Ciba-Geigy, the biggest Swiss chemicals company, the events of November 1 last year marked a watershed. That was the day of an enormous spillage of polluting materials into the Rhine from a warehouse operated by Sandoz, another leading Swiss chemicals producer.

The accident led to a storm of protests from ecology-minded citizens in Basle, where both Ciba-Geigy and Sandoz have their head offices, and also in France, West Germany and the Netherlands, where the effects of the pollution were felt the most.

Mr Krauer says the upsurge of emotion about pollution has led to sweeping changes for the chemicals industry in general. Ciba-Geigy has reappraised its policies over both waste management and in the way it presents itself to the public.

'It will no longer be sufficient to have good products, an efficient organisation and a strong balance sheet. To be successful in the 1990s, you will have to win the acceptance of the people who live near your plants. People will have to believe in your professional competence and your ability to manage technology.'

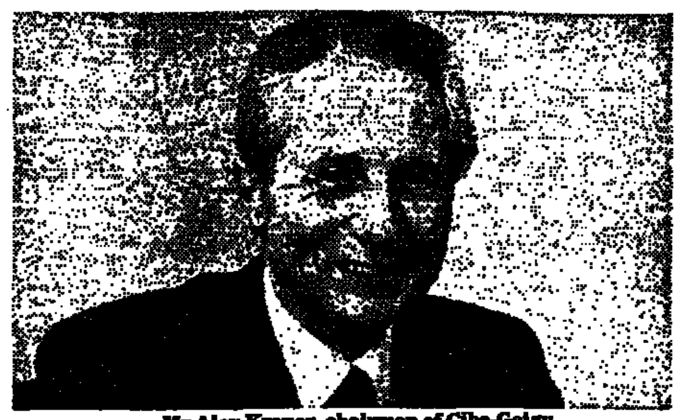
Mr Krauer, a lean, ascetic-looking 56-year-old, who became Ciba-Geigy's chairman in May, is backing up these words with cash. He says Ciba-Geigy will spend SFr1bn ($684m) over the next three years on anti-pollution measures, double the amount of previous years.

The money, comprising roughly a quarter of Ciba-Geigy's total capital spending, will be invested in such areas as improvements to water-treatment plants and new incinerators.

Mr Krauer took over the top job at Ciba-Geigy after 31 years with the company, which he joined straight from university as an economist. Together with the new policies concerning pollution, another priority for the chairman is to continue the company's strategy of a steady build-up of its main chemicals businesses together with a limited expansion into new, speciality areas.

Ciba-Geigy, which with sales last year of SFr16bn ($10.9m) ranked as the world's seventh-biggest chemicals producer, gains three-quarters of its sales and profits from what Mr Krauer calls the company's three "pillar" businesses - pharmaceuticals, agricultural products and plastics.

Total sales, measured in Swiss francs, were down 12 per cent in 1986, with a similar drop in profits. Much of this was due, says Mr Krauer, to currency movements. Ciba-Geigy is more than usually influenced by such



Mr Alex Krauer, chairman of Ciba-Geigy

matters, as only 2 per cent of sales are in Switzerland. The company promises better figures for 1987, much of this due to higher demand for its agricultural products, sales of which have been hit by the slump in the US farming industry.

To the pillars of Ciba-Geigy's activities are added such smaller businesses as the Ilford photographic-products division, electronic equipment and dyestuffs. Most of the company's past growth, as Mr Krauer points out, has been internally generated, rather than by acquisition.

He defends this record - which contrasts with the aggressive moves in recent years to buy companies by such other big chemicals concerns as BASF, Hoechst and Imperial Chemical Industries - on the grounds that Ciba-Geigy has seen no reason to splash out on new purchases. The company is already capable, says Mr Krauer, of developing high-growth businesses in the non-commodity sector of the chemicals industry.

The chairman cites as proof of this the company's high spending on research and development - SFr1.6bn last year, double the sum at the end of the 1970s - and its commitment to amassing expertise in the new science of biotechnology. The company spends SFr100m a year on such research, which it believes has high long-term potential in influencing new pharmaceutical and agricultural products.

As though to prove Ciba-Geigy's rules are not inviolable, however, the company has recently made a number of small-scale acquisitions to manoeuvre into what are for the company two new and relatively disparate activities - contact lenses and lasers.

It has built up its Ciba Vision contact-lens unit, which is especially strong in the US, over the past five years, through buying other companies, the most recent of which was the lens care subsidiary of Cooper Vision of the US. Sales of Ciba Vision, accounted for both by lenses and cleaning solutions, are likely to total $300m this year, according to Mr Krauer. This will position Ciba-Geigy among the world's top three or four lens companies, in which area other leaders include Bausch and Lomb of the US and Britain's Pilkington.

In lasers, the Swiss company in the summer concluded a $234m take-over of California-based Spectra-Physics, the world's top laser producer. The US company has had, however, a patchy commercial record. It showed a profit last year of less than $1m on sales of $210m, and in 1985 made a loss.

Mr Krauer appears to relish the challenge of integrating Spectra-Physics, which has a reputation for having free-wheeling management and being driven scientifically, rather than commercially, into the more conservative structure of his company. He says he hopes that being part of a multinational will not curb the entrepreneurial spirit of the US concern.

INTERNATIONAL CAPITAL MARKETS

Lawyers are re-examining escape clauses, reports **Clare Pearson**

When to claim force majeure

THERE IS nothing like a bear market for concentrating the mind on the small print.

The stock market crash over the last few weeks has presented underwriters with a host of dilemmas, of which the attempt to halt the British Petroleum privatisation issue was only the most conspicuous.

For instance, in the equity-related sector of the Eurobond and Swiss franc bond markets a string of issues has been postponed or withdrawn - the most notable being the A$1bn deal for Bell Resources, pulled by Merrill Lynch at the eleventh hour before its signing.

Underwriters, for whom in the past most equity-related issues were a one-way ticket to making money, are now focussing intently on exactly what they are committing themselves to when they win a mandate from a borrower.

The Euromarkets' main concern centres around the future wording of *"force majeure"* - which means the same as "act of God" - clauses which permit underwriters not to go ahead with issues.

Until now, there have been many different wordings for the clauses, depending on prior discussions between lead manager and issuer. In BP's case, for example, the clause outlined the circumstances in which underwriters could declare force majeure: basically, if something occurred "of such magnitude and severity" which a majority of underwriters thought "should not be regarded as a proper underwriting risk."

A declaration would trigger consultations between the underwriters and the UK Treasury, and if they could not agree, the Bank of England was to be brought in.

It was suggested at last Friday's board meeting of the International Primary Market Association (IPMA), the trade body for the new issues market, that standardised wording for force majeure clauses in international issues should be agreed upon, possibly for both debt and equity issues.

Formats vary widely, but a typical clause divides into two parts. The first details specific circumstances in which force majeure might be declared, such as the imposition of exchange controls, or market collapses. The second refers to more general financial, economic and political circumstances "materially affecting the issue."

Thorny question

The second section leaves considerable scope for discussion over what is meant by a "material adverse" change. If market conditions continue to be volatile, bankers feel this may become an increasingly thorny question - and one that astandardised clause could solve.

One member of the IPMA board said: "The aim of such a clause would be to draw a clear distinction between what might be deemed daily changes in market conditions, and major fluctuations."

However, he admitted that the formulation of such a clause would be a lengthy and tortuous business. Indeed, it is not clear at the moment that all the board members would either support such a measure or consider it within IPMA's briefing.

Another related question is that of the time during which a force majeure clause should be put into action.

On the surface, the situation is clear: it may be activated only up to the point when the subscription agreement has been signed. But in practice, bankers say the issue is clouded by a number of other factors.

The question has been brought to a head by Merrill Lynch's decision to withdraw Bell Resources' bond on October 23. The deal was not due to be signed until the following Monday, yet it had been priced, allotted and largely distributed. In that sense, some argue, Merrill had some sort of commitment to give Bell Resources its money.

Some bankers also argue that *in spite of the precipitous fall in* the price of Broken Hill Proprietary's shares, into which the bond was convertible, market conditions did not necessarily justify Merrill's decision. The bonds, for instance, incorporated put options, so that they could be viewed as fixed-rate instruments.

Others say that, although the *bonds were trading as low as 10* points below their issue prices, *this was no worse than the levels* hit by Japanese equity warrants bonds during the summer, in some cases even before they were launched. Yet then their lead managers went ahead and launched them.

But perhaps the most significant issue that the Bell Resources affair has raised is that Merrill would not have felt it had to pull the bond if it had not followed the comparatively recent fashion of fixing the terms on equity-related bonds very shortly after they are launched - launching them almost on a "bought deal" basis.

With the benefit of the hindsight afforded by the last few weeks, bankers are now saying this practice, which mimics the *straight debt market*, has been far too readily adopted in the equity-related sector over the last 18 months.

Commitments

Apart from the pricing and timing questions raised by the fate of Bell Resources' bond, it will at least make borrowers inclined to extract stiffer business commitments from lead managers, while underwriters *are sure to look far more closely* at what could be termed their "informal" commitments.

For instance, it is not unusual in the fixed-rate debt market for a lead-manager to agree to hold the price of a bond at a certain yield spread relative to US Treasury bonds. Bankers fear that in the future an issuer might ask a lead-manager not to withdraw an issue unless, say, the Dow Jones index falls below *a certain point*.

"One thing is sure," says Mr Cliff Dammers of Merrill Lynch. "People are going to have to think much more rigorously about what they are doing when they agree to launch an issue."

HK futures lifeboat pays out HK$1.8bn

BY KEVIN HAMLIN IN HONG KONG

THE GUARANTEE Corporation of Hong Kong's troubled futures exchange has so far paid out *HK$1.8bn from the HK$4bn* (US$512m) lifeboat fund pieced together by the Colony's government and private concerns to prevent the market's collapse.

The Guarantee Corporation yesterday announced it had sold some 25,000 "long" stock index futures contracts held by brokers which defaulted following the market's crash. The Guarantee Corporation last week served 34 suspended brokers with writs aimed at recovering HK$1.8bn.

Mr Gordon MacWhinnie, the Guarantee Corporation's chairman, said 12,000 open contracts remain outstanding and that these are held by brokers which have met their margin requirements.

The HK$4bn rescue fund was cobbled together in two packages of HK$2bn, with the Kong Kong Government contributing HK$1bn to each. Public money was to be used last in each case, which indicates that so far taxpayers have contributed HK$800m towards the rescue of the futures exchange.

A statement from the Guarantee Corporation said: "It is not anticipated that the second facility of HK$2bn provided to the guarantee Corporation will be drawn upon." Mr MacWhinnie added that he hoped "this episode is at an end." Analysts, however, say as many as another 45 futures brokers have been severely strained by the market's collapse.

In a separate announcement yesterday it was revealed that three of Hong Kong's most prominent local businessmen bought 9,000 of the contracts on Monday through Sun Hung Kai Securities' futures arm.

Cheung Kong's Mr Li Kashing, Henderson Land's Mr Lee Shan Kee, and New World Development's Mr Cheng Yu-Tung acquired roughly 3,000 contracts each in a move apparently designed to underscore their confidence in the Hong Kong market.

● Our Financial Staff adds: Sir David Wilson, the Governor of Hong Kong, yesterday announced the setting up of a committee to examine the operation of the Colony's financial markets and and regulatory system.

BIS chief calls for hedging rule change

By William Dullforce in Zurich

REGULATIONS governing *hedging operations* might have to be changed after the recent *plunge of prices on world stock* markets, Mr Alexandre Lamfalussy, general manager of the Bank for International Settlements (BIS), said yesterday.

He also argued that after the plunge it no longer made sense to say that supervisers and capital adequacy measures were needed only for banks. International co-operation between banking supervisors had to be extended to the securities industry as well.

Futures markets and computerised trading have been widely blamed for aggravating market falls. Traders and backroom specialists retort that the charge has not been proved.

The issue of whether financial innovations had amplified the extent of the decline in prices could not be ignored, Mr Lamfalussy told a symposium on financial deregulation organised in Zurich by the British Invisible Experts Council.

In particular, the question had to be addressed of whether hedging operations in markets for share options and futures, based on computerised trading programmes, had added to the selling pressures on the stock market.

Risks, against interest rates for example, hedged against by some market players were being redistributed to more willing risk takers. But the financial system as a whole could not insure itself against interest rate risks, Mr Lamfalussy said.

It was not certain that those taking on the risks were able to assess them realistically. The question of whether risk takers were solid enough had been raised by the recent closure for a week of the Hong Kong stock and futures exchanges.

Interest rate risks were related to countries' policy stances, which were not always easy to foresee, Mr Lamfalussy said.

He recalled that in the early 1980s the international banking system had protected itself against interest rate risks on its international lending by introducing adjustable rates.

The result had been to shift the risk onto debtor countries - with severe consequences for the quality of banks' international loans.

Recent events on stock exchanges had also underlined the importance of market players having adequate financial resources to withstand a big shock, Mr Lamfalussy said. This, he claimed, confirmed the validity of the argument in favour of international co-operation between supervisors of securities industries.

The BIS general manager agreed, however, with those who regard the unprecedented drop in shares prices in New York as a signal from the market about the credibility of current US economic policy.

£125m FRN for Investors in Industry

By Stephen Fidler, Euromarkets Correspondent

INVESTORS IN Industry (3i), the UK business finance concern, launched a £125m floating-rate note yesterday, a move which a senior company executive said was influenced by its doubts about the markets in foreign exchange and interest rate swaps.

Many borrowers, including 3i, have been aggressive users of the swaps market to obtain funds at very competitive interest rates.

Mr Donald Clarke, 3i's finance director, said the decision to go ahead with the issue was taken because "it happens that the FRN market was there and other markets were not so obviously available.

"In taking on swaps, you are taking on risks that you don't have in your own currency. They are difficult risks to assess, and don't concern us much in normal times," he said. The company was, however, quite content with its current swap book.

The seven-year notes, lead managed by Warburg Securities, are priced at ⅛ percentage point over three-month Libor, with the coupon set for the first three months at $9\frac{7}{16}$ per cent.

Warburg said the issue had been well received, being bid at 99.50, a discount slightly in excess of its full fees, and cited demand from corporate treasurers and foreign banks. The "realistic" pricing of the issue had led to some modest downward adjustment in the prices of seasoned issues, he said.

Conventional sterling FRNs have been rare since the debacle in the FRN market at the turn of the year. Most sterling floaters have been for mortgage finance companies, although there have been issues for building societies.

The company, 15 per cent owned by the Bank of England and the rest by the UK clearing banks, has been one of the most frequent British visitors to the Euromarkets since its debut in the Eurosterling market 10 years ago this month.

Late boost to prices in a thin day's trading

BY CLARE PEARSON

CONTINUED UNCERTAINTY over where the dollar would find a floor value kept Eurodollar bond trading thin yesterday. *A public holiday in Japan also* dulled activity.

Eurodollar bond prices were bolstered late in the day by falls in the New York equity market and a rally in the dollar. Ten-year Eurodollar bond prices closed about ¾ percentage point higher than their lows during the morning.

Yield differentials between higher-rated sovereign paper and US Treasury bonds continued to narrow. Dealers said this *reflected buying* by US insurance companies, which have slightly narrowed their yield spread requirements over the last few days.

However, yield spreads on *medium-rated corporate paper* were widening substantially. This was seen as a corrective move bringing them into line with lower-graded issues, which have traded at significantly higher yield margins since the stock market crash.

The Australian dollar bond market was showing signs of stabilising after the shock of Monday's news that Orion Royal Bank, previously the second largest market maker in the sector, was withdrawing from the Eurobond market.

Aside from concern about the effect this would have on the liquidity of the sector, dealers had been worried that Orion might have been left with a large position to unwind into the market. But yesterday there appeared to be no sign of this.

Australian dollar bond prices ended the day about ⅝ percentage points lower, but this mainly reflected overnight falls in the Australian domestic bond market and the weaker currency.

INTERNATIONAL BONDS

SG Warburg led a £125m floating-rate note issue for Investors in Industry. The only other two deals of the day were specialty FRNs, targetted at specific brackets of demand.

LTCB International led a Y15bn five-year bond for Cregem Finance, a vehicle for Credit Communal de Belgique/ Gemeendekrediet van Belge. The bond pays 55 basis points below the Japanese long-term prime rate. It is priced at 100¼.

Yamaichi International (Europe) led a $50m three-year bond for Kansallis-Osake-Pankki, priced at 100¼. Seventy per cent of the redemption value is in US dollars, and 30 per cent in New Zealand dollars. It will pay 25 basis points over the yield on 10-year US Treasury bonds.

In the D-Mark domestic bond market, prices rose by about ½ point, spurred by the weaker dollar. D-Mark Eurobond prices were unchanged to ¼ point better.

Deutsche Bank led a DM300m 6¼ per cent bond for the European Investment Bank, which will be traded interchangeably with an outstanding DM200m issue for the borrower, launched in July. The new bond has a 7¾-year maturity and is priced at par. It traded at less 1⅛ bid, compared with 1¾ per cent fees.

In the Swiss franc foreign bond market, prices closed unchanged *to slightly higher* in moderate volume. Demand for *top-quality* paper continued strong.

Swiss Bank Corporation announced a SFr120m 10-year bond for Fidelity and Guarantee, the US insurance company. In spite of an attractive indicated 5½ per cent coupon, dealers said the borrower's name was unlikely to attract investors. The issue price is indicated at par.

Dean Witter swaps bond team

BY RODERICK ORAM IN NEW YORK

DEAN WITTER, the Wall Street firm owned by Sears, Roebuck, the largest US retailer, has fired almost half its municipal bond underwriting staff so that it can hire the nucleus of the Salomon Brothers' team axed last month in a swingeing strategic review.

Salomon, the leading issuer of municipal bonds with about 10 per cent of new issues so far this year, decided to abandon the *sector because of changes* stemming from last year's tax *reform.*

The volume of new issues had fallen sharply and the market had become almost the sole preserve *of retail rather than insti*tutional investors. Competition had intensified, slashing fees and profits.

Dean Witter, on the other hand, has a much stronger retail investor base than Salomon and has been building up its municipal bond sales and trading departments to serve it.

Mr Macon Brewer, president of Dean Witter Capital Markets, one of the firm's operating units, said: "Our biggest and best customers want the product."

However, until Monday's move the firm had been weak on the underwriting side, ranking less than 20th in terms of market share. Instead of originating the bonds, "we were buying them on the Street," Mr Brewer said.

It hopes to correct that by hiring Mr John Donovan and Mr Fenn Putnam, formerly managing directors of Salomon's municipal finance department.

In addition, some 25 other Salomon employees have joined Dean Witter. *But to make room* for them, Dean Witter will be firing about 20 to 23 of its existing professional staff in the area. They have not been offered jobs elsewhere in the firm.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on November 3

US DOLLAR STRAIGHTS

	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey National 7½ 92	200	92	92½	−0¼	+0⅛	9.77
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

YEN STRAIGHTS

	Issued	Bid	Offer	Change on day	Change on week	Yield
Belgium 4⅝ 94	45	95¼	96⅛	+0¼	+2⅛	5.38
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER STRAIGHTS

	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

DEUTSCHE MARK STRAIGHTS

	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SWISS FRANC STRAIGHTS

	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FLOATING RATE NOTES

	Spread	Bid	Offer	C.dte	C.cpn	C.yld
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CONVERTIBLE BONDS

	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CBS, Inc. 5 02	4/87	200.	92¼	94¼	−1¼	12.28
Chiba Bank 2⅞ 02	†1/87	790.5	170	172	−0¼	3.21
Fuji Hvy Inds 3 00	8/85	676.	135½	136½	+0⅛	−1.44
Fujitsu 3 99	5/84	1106.	160½	161½	−0¼	−5.28
Gunma Bank 2⅞ 02	4/87	808.	127½	129	0	−1.33
MCA INC 5½ 02 US	†9/87	69.62	71	73	0	24.15
Minolta Camera 2¼ 94DM	2/86	1004.	90¼	91⅛	0	35.51
Mitsui trust 2⅞ 01	10/86	1903.	121	122⅝	+1½	−3.22
Next PLC 5¾ 03 £	11/87	4.3	100½	102½	+0½	69.17
Nippon Elec 2⅞ 00	†1/85	1295.	259	260	+2	−1.70
Oki Elec Ind 3½ 99	10/84	805.	160½	161⅛	−2¼	−2.83
Onoda Takeda 2⅞ 02	4/87	1310.	129½	130½	−0½	−5.67
Redland 7¼ 02 £	1/87	5.4	85¼	87¼	0	25.57
Yokohama Bank of 2⅞ 01	†10/86	1014.	157	159	−0⅛	−3.26
W.R. Grace 6¼ 02 US	9/87	84.25	80¼	81½	−7¾	43.93

* No information available-previous day's price

† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡three-month; §above mean rate) for US dollars. C.cpn=The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv date=First date of conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

PART TWO: PERSONNEL

When golden handcuff meets golden hello

Clive Wolman explores the various paths followed by firms aiming to create and retain loyal teams

THE SOARING salaries, the mass defections, recruitments and - more recently - dismissals, and the frantic life-styles of the new breed of stockbrokers and market-makers have been the most salient features of the run-up to Big Bang and the year after.

For the managers of the UK's securities firms, the restructuring of their organisations and the recruitment and remuneration of staff has been the issue which has occupied more of their time than any other. After all, staff numbers have more than doubled in many firms and staff costs typically account for more than 70 per cent of the total.

In 1983-84, after the Stock Exchange agreed to abandon its minimum commissions cartel and then to allow banks, brokers and jobbers to merge, Stock Exchange firms had to grapple with several contentious staffing issues in preparing for the new era.

These were some of the questions:

- Is the best way of building up strength and expertise across-the-board by merger and acquisition, or by recruitment and training?
- If the acquisition route is followed, what steps should be taken to ensure that the key employees do not move elsewhere and that they remain highly motivated?
- Should the traditionally separate broking, market-making and corporate finance operations be pushed together into a tightly integrated and centrally-controlled unit? Or, in view of the likely cultural clashes and potential for conflicts of interest, is it preferable to let them continue operating autonomously?
- To what extent should the old partnership system of remuneration - with its modest fixed salaries but often substantial profit shares determined largely on the basis of seniority - be abandoned?

Those banks which bought expensive stockbroking and even more expensive jobbing firms were accused of paying excessive prices for assets that could get up and leave at any time.

Those sceptical of acquisitions argued that the general upheaval in the securities industry and investment community meant that neither reputation, customer loyalty nor the corporate ethos of broking or jobbing firms would count for much.

By recruiting and training individuals themselves, these firms said they would be able to develop a new corporate culture at lower cost and without being saddled with the less profitable parts of existing firms. According to John Holmes, managing director of Morgan Grenfell Securities, which acquired a jobber but no equity broker: "We avoided the overheads that were built up in regulated markets. Other firms have a lot of dead wood."

This approach has proved correct to the extent that many of the pre-Big Bang firms continue to suffer from excessive overheads. Even a successful firm like Hoare Govett is at least 20 per cent overmanned, according to one well-informed estimate.

But, overall, those which have spent the most on acquisitions, particularly of jobbing firms, rather than relying on recruitment, have fared best.

The first reason for this is that methods of operating have changed less than was anticipated. Most equity deals are still carried out on a commission basis and investment research is conducted, disseminated and evaluated in the same way as before Big Bang.

Secondly, the failure of many analysts to perform as well after moving to a new home, for example the former Scrimgeour Vickers electronics research team that left for Smith New Court just before Big Bang, has highlighted the importance of strong back-up and close relationships with salesmen.

There has also been little evidence of the widely feared cultural clashes and bust-ups on the trading floors between the different components of an integrated firm, for example, over the extent to which the salesmen and analysts should help the market-makers to run their books.

Sir David Scholey, chairman of S.G. Warburg, the largest spender on stockbroking and jobbing firms together with Barclays de Zoete Wedd (BZW), says: "We no longer have Mullens cliques or Akroyd cliques. People don't think in those terms."

Simon Haslam of Spicer and Pegler, one of the leading management consultants to the securities industry, confirms Scholey's optimism: "In practice, the differences in ways of viewing things between banker, jobber and broker have not been so marked and most combinations have worked better than I thought. They have gone to great lengths to make sure that people knew each other and understood where the organisation was going."

> If the acquisition route is followed, what steps should be taken to ensure that the key employees do not move elsewhere and that they remain highly motivated?

Leslie Deighton, a consultant to the banking industry on organisational issues, detects more stresses beneath the surface as individuals jostled for position in the new emerging hierarchies. "It is surprising how political people have become. But this has been a necessary part of a roughing up process. They needed to create some constructive friction to get people to change their habits," he says.

The powerful competitive pressures, which have redirected internal tensions towards the enemy without, and careful preparation and training have helped the integration process. Most firms held several lengthy rehearsals which simulated post-Big Bang trading conditions.

BZW took staff from its subsidiaries away on intensive group acclimatisation sessions over weekends. "We had to dilute the tribalism that existed in each of the houses," says BZW chairman Lord Camoys. "We recognised that there was bound to be a clash of interests if people were doing their jobs properly. But people have still got their money tied up in this venture and need to make it succeed."

Most banks, such as National Westminster, which have attempted the full integration of their acquisitions, have found stockbrokers more obstructive to change than jobbers, with their flexible trading instincts. The conservatism of the brokers has been a particular problem when two broking firms, of approximately equal size and status, have merged, as with Simon and Coates and Laurie Milbank under the umbrella of Chase Manhatten.

Several banks and broking firms have backed away from full integration when confronted by staff opposition and by the realisation that the synergies would be difficult to achieve. Hill Samuel's plans to integrate its corporate finance department with Wood Mackenzie's corporate research and securities distribution arms - to which a market-making arm was added - never got off the drawing board. Sir Robert Clark, Hill Samuel chairman, admitted in September that its belief in integration had been mistaken.

Whatever the difficulties of putting together two or more well-established firms, the most clear-cut benefit to accrue to those banks which spent heavily on acquiring brokers and jobbers has been in their settling of bargains.

The need for efficient settlement procedures, almost universally overlooked until the last few months before Big Bang, has been highlighted by the doubling of the number of bargains to around 55,000 per day over the past year.

The offices that have best handled the increase in paper-processing are those of the former jobbing firms. Their experience in handling high volumes of low margin transactions and their understanding of the complexities of the stock borrowing system have been crucial.

Stock borrowing, which allows a market-maker to speed up his delivery of share certificates in return for cash, has greatly improved the cash flow and profitability of the ex-jobbing firms at a time when most firms have been suffering from a large backlog of paper.


City dealers at work: the powerful competitive pressures have redirected internal tensions towards the enemy without

Recruitment of expertise from the back offices of rival firms has not been easy. Settlements staff are generally more loyal than analysts or traders. And the effectiveness of a department depends much more on team work and organisational structure than on any individuals.

Those firms which have relied heavily on recruitment have not found the going easy. The County investment banking subsidiary of National Westminster bought relatively small broking and jobbing firms and has filled in the gaps with an ambitious recruitment programme, increasing the staff of the three newly-merged firms from 800 to 2,200. This has absorbed large amounts of management time to the possible neglect of team-building.

Charles Villiers, County chairman, agrees: "In a raging bull market, it would have been better if we had bought larger firms. But at the time, the idea of paying large amounts for people who might leave was unattractive."

Among the more successful recruitment strategies has been Citicorp Scrimgeour Vickers's moves to build up a market-making arm from scratch; it now has an estimated 8 per cent market share.

The counterpart of successful recruiting has been the failure of acquiring firms to hold onto staff. All those banks which acquired Stock Exchange member firms went, by British standards, to unusual lengths to attempt to tie down staff. "Golden handcuffs" were applied not only to former partners as part of the purchase terms but also to senior employees in the "marzipan layer".

But in practice, golden handcuffs have not been particularly effective. They have often been neutralised by the "golden hello" offers of the recruiting firms and in cases in which staff discontent has become widespread, the parent companies have felt obliged to waive their strict legal rights if only because retaining the staff would have been even more disruptive.

Thus Greenwell Montagu Securities, the Midland bank subsidiary, lost more than 25 staff, of whom about half were partners, over the summer. Shearson Lehman Securities also released the golden handcuffs on partners over the summer as discontent mounted. It subsequently dismissed 150 staff.

Even more difficult than retaining staff has been devising packages to motivate them. Some acquiring firms have allowed at least the most senior staff some form of equity participation. But the more imaginative "earn-out" packages, which have become popular in the acquisition of US investment management firms, were not tried out in London (except in a diluted form by a few banks such as Warburg).

Instead, most firms have moved towards higher basic salaries and smaller bonuses, typically 20-30 per cent of the total, based on individual performances. This gives less flexibility to cut salary bills in hard times, although as a result of October's stock market fall many firms are expected to cut 1987 bonuses to a minimum.

A sign of the changing cultural norms in the City as elsewhere in British industry is that most bank executives have accepted that their best securities salesmen and traders will earn more than they do, even if they are 30 years younger.

But only a few of the US-owned firms such as Shearson Lehman have been willing to go the whole hog towards individual performance-related pay, by paying salesmen purely on a commission basis.

According to David Clementi, managing director of Kleinwort Grieveson Securities: "If you put your salesmen on commission they will tend to move to whoever gives them a higher wage packet. We work hard to create a team approach. I tell the salesmen they are also being judged on the business they give to the market-makers and not just on commission income. We also want our best salesmen to spend some of their time helping with a corporate finance deal or training."

Probably the most serious defect in the pre-Big Bang preparations has been the failure of both the Stock Exchange and the individual UK-owned firms to organise training programmes. This has contributed to the shortages and inefficiencies in key areas, particularly settlements, and inflated salary levels.

Mark Austen, who heads the financial services consultancy of Price Waterhouse, reports a recent flurry of enquiries about setting up training programmes. But, he says: "Training has long lead times and stockbrokers have always been reluctant to spend on long-term investments. The US and Japanese firms have a different approach. They will, for example, take graduates from here to New York for several months to train them."

The first article in this series was published yesterday; the next will appear tomorrow.

Business courses

Strategic vision - is it torpedoed by "short termism"? London. November 16. Fee: non-members £172.50; members £143.75. Details from Christa Langan, The Strategic Planning Society, 15 Belgrave Square, London SW1 8PU.

How to manage executive time more effectively, London. December 1. Fee: £120 + VAT (members); £140 + VAT (non-members). Details from IM Marketing Training, Moor Hall, Cookham, Maidenhead, Berks SL6 9QH. Tel: 06285 24922 ext 2229.

Spreadsheet power, getting maximum value from your spreadsheet, London. November 23-24. Fee: day 1 or day 2, basic rate £225 + VAT; group rate £195 + VAT; both days basic rate £425 + VAT; group rate £395 + VAT. Details from Monadnock International, 2 The Chapel, Royal Victoria Patriotic Building, Fitzhugh Grove, Trinity Road, London SW18 3SX. Tel: 01-871 2546.

The tools of marketing, London. December 11. **The fundamentals of marketing,** London. December 14. Fee: £120 + VAT (members); £140 + VAT (non-memebrs). Details from IM Markekting Training, Moor Hall, Cookham, Maidenhead, Berks SL6 9QH. Tel: 06285 24922.

The price reversal: a world of uncertainty and opportunity, London. November 23. No fee. Details from Maureen James, Arthur Andersen & Co, 1 Surrey Street, London WC2R 2PS. Tel: 01-438 3627.

Legal issues and and new developments, the second annual international financial law conferneсe, London. December 14 abd 15. Fee: £435 + VAT. Details from Lisa Hamilton-Price, IBC Legals Studies and Services, Bath House (3rd floor), 56 Holborn Viaduct, London EC1A 2EX. Tel: 01-236 4080.

Tax issues in banking and treasury, London. December 7-8. Fee: £325 + VAT. Details from Gerry Wallis, D C Gardner & Co, 5-9 New Street, London EC2M 4TP. Tel: 01-283 7962.

Project management for engineers, London. December 7-11. Fee: £500. Details from Nigel Meade, School of Mmanagement, Imperial College of Science and Technology, London SW7 2AZ. Tel: 012-589 5111.

Venture capital financial forum, London. December 3-4. Fee: £440 + VAT. Details from the Financial Times Conference Organisation, 2nd floor, 126 Jermyn Street, London SW1Y 4UJ. Tel: 01-925 2323.

Concepts of corporate financial modelling, London. December 1-2. Details from Nigel Meade, School of Management, Imperial College, London SW7 2AZ. Tel: 01-589 5111.

UK COMPANY NEWS

Rosehaugh jumps to over £15m

BY PAUL CHEESERIGHT, PROPERTY CORRESPONDENT

Rosehaugh, the rapidly expanding property development group which until a fortnight ago was a stock market favourite, yesterday announced a sharp increase in pre-tax profits for the year to June 30 1987.

Shareholders are to receive a dividend of 1.25p compared with 1p for 1985-86. There was no interim. The cautious dividend policy reflects the group's drive for asset growth. Earnings per share were 19.49p against 10.51p in the previous financial year.

Pre-tax profits climbed from £6.5m to £15.1m in 1985-86. The rise had been foreshadowed at the interim stage.

The results helped to stabilise the share price which has been savaged by the general downturn on the markets and the particular concern that the expansion in the demand for City of London offices is about to slow down.

It closed at 515p for a fall on the day of 38p, after having been 505p before the announcement of the figures. But this compares with a high for the year of £11.75.

However, the profit and loss account for the year gives only a partial picture of Rosehaugh's activity. The style of the company has been to undertake its biggest development projects in joint ventures with other companies and to finance them with non-recourse borrowing off the balance sheet.

The figures show a gross profit of £12.17m for 1986-87 against £10.19m for 1985-86 and a share of income in related companies up to £3.1m from £836,000 the previous year.

Other sources of income, including interest from listed investments and interest receivable, rose from £3.68m to £7.9m undoubtedly helped by a disguised rights issue to cover the purchase of General Funds Investment Trust.

The rapid expansion of the group, as it has spread its activities from City of London office schemes into retail development, housebuilding and provincial office ventures, has brought an increase in staff costs to £5.8m (£3.9m). But that increase was largely offset by lower interest payments.

A key factor in the future fortunes of Rosehaugh will be the Broadgate office development it is pursuing with Stanhope at Liverpool Street station in the City of London. The first three phases of the 14-phase project, the biggest commercial development in Europe, have been let and terms have been agreed for the leasing of phases four to seven.

In a guarded reference to the uncertainty on the Stock Exchange, Mr Godfrey Bradman, the chairman, promised shareholders that Rosehaugh would continue its cautious approach to the management of the business, and noted that "the current problems affecting the world's financial markets serve to reinforce the importance of this policy."

Former CES directors move into Era

BY CLAY HARRIS

MR MURRAY Gordon and two other former top executives who left Combined English Stores after its takeover by Next earlier this year, are to buy a stake in Era Group and take over the management of the furniture and games retailer.

Mr Gordon was named Era's executive chairman, the position he formerly held at CES, the jewellery, fashion accessories and chemists chain.

Mr David Roxburgh and Mr Pat Hammond-Turner, chief executive and assistant managing director respectively at CES, have been appointed executive directors.

In addition to issuing 2.5m shares at 70p to Mr Gordon, Mr Roxburgh and Mr Hammond-Turner, Era also launched a one-for-eight rights issue at the deeply discounted price of 25p. The issue, which will raise £1.6m, has been underwritten without commission by Mr Gordon. Era shares were unchanged yesterday at 76p.

Era said the three men had been invited to join the company in order to provide the management depth and expertise to create a substantial multiple retailing group.

Formerly "The Times" Veneer, Era at present makes and sells reproduction period furniture through Lexterten and imports and sells models and hobby kits through Richard Kohnstam and Beatties. Mr Gordon said these "niche" retailers had enormous potential for growth.

In the first half of this year, Era achieved pre-tax profits of £861,000 on turnover of £19.5m. This compares with the pre-tax profits of £21.8m on sales of £189m which CES achieved in its last full year of independence.

Mr David Landau, the architect of Era's redevelopment, has resigned as chairman but will remain as a non-executive director until the end of the year. He and two other directors have sold part of their holdings at 70p: the three former CES executives have taken a total of 2m shares, with another 2.5m shares being placed with institutions.

The three new directors will own a total of nearly 10 per cent of Era shares, before taking into account Mr Gordon's underwriting commitments or eventual dilution through conversion of preference shares.

Berisford attacks ABF moves

BY CLAY HARRIS

S&W Berisford last night challenged the implication that it had been at fault in not supplying shareholders, especially Associated British Foods, information about the effect of world market turmoil on the company's business.

Charterhouse, Berisford's merchant bank, said that it had been assured that operations remained entirely sound and that there had been no material adverse change in financial condition as a result of the recent deterioration in world markets.

Meanwhile, Berisford shares fell another 19p to 295p, reflecting growing doubts that ABF intends to complete its £767m takeover bid. The shares stand more than a pound below ABF's 400p cash offer and only 2p above the price at which ABF bought its 23.7 per cent stake in May.

Charterhouse yesterday wrote a strongly-worded letter to its counterpart, County NatWest, complaining that ABF had not requested any information about Berisford, nor had Charterhouse "been made aware of any specific anxieties your client may have."

Charterhouse also said, "We and our client are astonished that you should have allowed your client to proceed in this way. We deplore this course of conduct which appears to be no more than an attempt to disguise your client's real intentions."

The letter followed ABF's decision to adjourn yesterday's extraordinary general meeting until November 24, citing the need to learn more about the effects of recent market turmoil on Berisford's business. The delay is also an insurance policy to allow ABF to abort the bid regardless of the level of acceptances.

Charterhouse also defended Berisford against criticism for failing so far to produce a profit estimate for the year which ended on September 30, the day before ABF launched its bid. ABF announced the offer, Charterhouse said, "solely on the basis of its own expectations of the 1987 results."

Berisford, "a diverse and international organisation," expected to announce a profits estimate later this month.

Bid doubts hit Sound Diffusion

BY PHILIP COGGAN

A THIRD of the market capitalisation of Sound Diffusion, the electrical equipment leasing group, was wiped out yesterday as investors reacted to Monday's evening announcement of an 88 per cent fall in interim pre-tax profits.

The market was also influenced by fears that the poor results might dissuade Tunstall Group, the security equipment company which has been discussing a possible merger with Sound Diffusion, from pursuing its interest. But Mr Michael Dawson, Tunstall's chairman, was yesterday optimistic that a deal could yet be arranged.

"The results haven't influenced our interest," he said, "but they may influence the price we are prepared to pay." Sound Diffusion's shares fell 15p to 32p yesterday.

The group's preliminary results for 1986 were announced last month, revealing that auditor Ernst & Whinney had insisted on the company reducing its own profit figure by over £4m. Mr Paul Stonor, the chairman and managing director, then offered to retire from his position if shareholders' reactions were unfavourable and "as a direct consequence, the quoted price of Sound Diffusion's shares suffers a sustained and material fall in value."

Tunstall bought a 4.9 per cent stake shortly after the announcement of the 1986 figures and at the Annual General Meeting last week, Mr Stonor said that there was commercial logic in a merger.

Mr Dawson said yesterday that "we are still waiting for detailed financial information on Sound Diffusion which the company has promised us. That is the reason why there has been no further move."

Lee parent to seek listing

Westward Communications, the new unquoted parent of Lee International, film lighting manufacturer and supplier, is seeking a US listing by September of next year, shareholders were told at Lee's final annual meeting as a listed UK company.

The statement by Mr John Davey, non-executive chairman, is the most precise indication so far about Westward's intentions. During the recent £198m leveraged buy-out, financed by Citicorp, US bank, Lee said US flotation was likely to be sought within 18 months.

The high level of cash acceptances means that profits until re-flotation will go entirely towards servicing the interest. Westward's net liabilities are estimated to exceed £91m.

S&N given clearance on MB bid

By Clay Harris

THE £186m bid for Matthew Brown by Scottish & Newcastle Breweries has been cleared to proceed without a new reference to the Monopolies and Mergers Commission.

Lord Young, Secretary of State for Trade and Industry, followed the recommendation of the Office of Fair Trading that there had been no material changes since 1985 when the Commission cleared S&N to launch an ultimately unsuccessful bid for Matthew Brown.

Directors of Matthew Brown are now to consider what advice to give to shareholders who have remained loyal so far. A monopolies reference was the Blackburn-based brewer's last hope of escaping takeover by S&N after the long-time predator declared the bid unconditional last week.

It remains to be seen whether the Matthew Brown board will now capitulate and recommend the offer or continue guerrilla warfare in an effort to thwart S&N hopes of compulsorily purchasing the minority.

Matthew Brown shares lost 2p to 670p yesterday compared with the 651p value of S&N's share offer. S&N secured victory with a 750p cash offer, which is now closed.

●Elders IXL, Australian brewer of Fosters lager and owner of Courage in the UK, has increased its stake in Greene King, the Suffolk-based brewer, to 8.54 per cent.

BRYANT HOLDINGS (Building and development, property investment).- Mr Chris Bryant, chairman and managing director, told the annual meeting the company was operating in favourable trading conditions, and the board was doing everything possible to make certain that the group produced excellent results in the current financial year. The strong demand for the company's quality homes continued with sales to match.

Institutions face £500m bill for rights issues

BY NIKKI TAIT

With share prices continuing their slide yesterday, UK underwriting institutions could face the prospect of paying out over £500m this week for unwanted rights issue stock.

Yesterday, at least one more company - Heywood Williams - joined the lengthening list of major fund-raising casulties. The £29.3m cash call by Heywood, the glass and aluminium specialist, closed with the shares trading at 273p, against a rights price of 310p; under 5 per cent of the new shares are believed to have been taken up by existing shareholders.

At cleaning group, Sketchley, which saw a £27.5m call close yesterday afternoon, matters were more finely poised. The rights issue price stood at 400p a share, while Sketchley shares were trading at 397p - within a spread of 392p to 402p - in the market. The company's advisers, N. M. Rothschild refused to comment on the result ahead on an announcement today.

But T. Cowie, the Sunderland-based motor distributer and one of the highest-flying shares during the summer bull run, yesterday confirmed that its £44.5m call, which closed on Monday, has comprehensively flopped. Only 1.67 per cent of the new shares were taken up by existing shareholders, and the remainder are being left with the sub-underwriters.

At the time the rights issue was announced, the new shares were priced at a fairly sizable 16.5 per cent discount to Cowie's market price. Cowie shares, however, had dropped by a third by the time the issue closed and yesterday eased a further 11p to 115p.

Other recent casualties - seeing reduced levels of take-up on rights issues or placings - have included a number of ambitious property companies, such as Helical Bar, New England Properties and Allied London Properties.

All eyes are now on the £254m call by Ladbroke - money which is being raised to help finance its £1bn purchase of the Hilton hotels chain - which closes today, and on the £143m rights from Kleinwort Benson, the merchant banking group.

The Ladbroke rights shares are being offered at 378p; yesterday, however, the market price fell 18p to 334p. Shareholders have until Thursday to decide on the Kleinwort issue. Again, however, the shares weakened by 7p to 446p yesterday and now stand 16p below the rights price.

Control Securities back in the black

Control Securities, the property company headed by Mr Nazmu Virani, moved back into profit in the six months to September 30, with pre-tax profits reaching £1.51m against a loss of £1.05m in last year's first half.

Since Virani moved into Control two years ago, he has transformed the company via a series of deals through which he swapped equity stakes for property portfolios. As a result of those deals, major stakes are held in Control by Heron Corporation (4.9 per cent), Mountleigh (8 per cent) and London & Edinburgh Trust (5.6 per cent).

Control now has property assets valued at £125m, at historic cost, and gearing has been reduced from 136 per cent to 12 per cent of shareholders' funds.

Plessey pays £46m for US defence group

Setting sail with Sippican

BY TERRY DODSWORTH AND DAVID THOMAS

Plessey's acquisition of Sippican, the US defence group, will hardly have come as a surprise to investors.

For months, the company has been signalling its ambitions to expand in the US and develop its defence interests. It has built up its cash balances, cleared the decks for new ventures by merging its telecommunications activities with those of GEC, and hired a top takeover-oriented finance director in Mr Stephen Walls, late of Chesebrough-Pond's in the US.

Not least, it has been under some pressure to act from the City, where speculation has centred increasingly in recent weeks on Plessey's own vulnerability to a takeover bid.

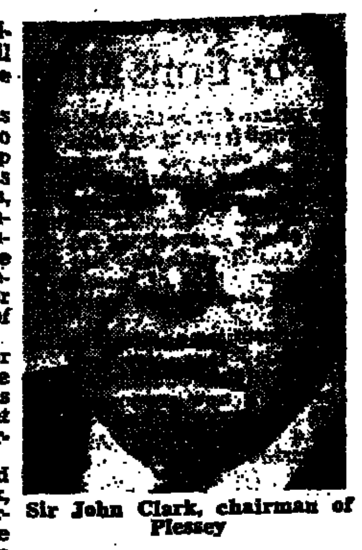
Yesterday, it finally pounced on a US target. Sir John Clark, Plessey's long-serving chairman, described the $80m(£45.9m) deal as a purchase of "impeccable commercial logic." It gives Plessey links with a small but expanding Massachusetts-based manufacturer of specialised devices used in submarine warfare. Plessey has worked with the company for 20 years, knows it intimately, and says that its products make a natural fit with its own.

With sales last year of $50m, Sippican is a minnow in the giant US defence business. But Plessey's own defence-related turnover in the US amounts to only about $34m at present, so the deal gives it an immediate boost in volume terms. It also comes at a time when the acquisition cost looks cheaper because of the strength of sterling, and even if the price looks relatively high, at about 20 times historic earnings, Sippican's anticipated profits this year of a little over $4m mean that the deal should be virtually neutral on Plessey's profits.

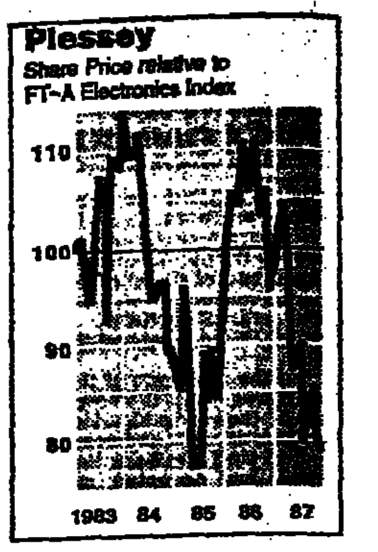
The commercial logic to which Sir John referred amounts to developing a mixture of policies to capitalise on Sippican's geographical position and technology.

First of all, the US company will be used to channel Plessey products - relatively strong in the the submarine area - into the US through a supplier which already has a strong relationship with the Pentagon and the navy.

Second, some of Plessey's own technology can be injected into the Sippican product line, and vice-versa. Plessey has itself been expanding in the area of sonor technology in recent years, and the two companies



Sir John Clark, chairman of Plessey



believe they have ideas to offer each other.

Third, Plessey says that it will be able to sell Sippican equipment to European navies. Sippican makes a range of products for which there is a strong continuing demand, mainly because they are expendable - they sink to the bottom of the sea and have to be replaced by another of the same.

One of these is a sonobuoy which is dropped from aircraft and hangs in the water to deliver radio signals indicating the whereabouts of enemy submarines; another is a bathythermograph, another expendable item which gives information about the temperature and salinity of water, essential information in interpreting sonor signals.

Plessey's acquisition should also help kill the feeling that the US authorities were beginning to turn against foreign acquisitions of US defence companies. This view was fuelled by the Pentagon intervening in two much larger planned acquisitions earlier this year, one of which also involved Plessey.

National security arguments were raised by the Pentagon when Fujitsu, the Japanese electronics group, tried to buy 80 per cent of Fairchild Semiconductor, the Silicon Valley chip manufacturer. In retrospect, these defence arguments might have been something of a ploy because they surfaced when the US was trying to put maximum pressure on Japan to open up its semiconductor market.

However, defence considerations were certainly to the fore in the Pentagon's unhappiness about Plessey's wish to acquire the Harris Corporation, the Florida-based electronics group which is about the same size as Plessey.

The collapse of Plessey's attempt to buy Harris, which happened in the spring but became general knowledge only in September, was a result of the Pentagon's concern over Harris's role as one of the more important suppliers to the US defence market and particularly its involvement in top secret contracts, known as "black" projects.

Some people thought that the Fairchild and Harris interventions could herald a wave of US opposition to loss of ownership of its defence industries. Plessey's latest acquisition, however, suggests that this is not the case.

The Plessey purchase fits into a pattern established this year of UK defence companies, under pressure at home by the squeeze on the defence budget and the new regime of competitive tendering, expanding into the US market through acquisition. Other examples include:

●Ferranti's merger in September with International Signal and Control, the US defence contractor, to form a group with annual sales of more than $1bn.

●General Electric Company's $205m acquisition in July of the astronics and development sciences subsidiary of Lear Siegler, the Californian conglomerate.

●Smiths Industries' purchase, also in July, of other parts of Lear Siegler's avionics empire for $350m.

Slough disposals reap £36.7m

BY PAUL CHEESERIGHT, PROPERTY CORRESPONDENT

Slough Estates, the international property group which is the biggest developer of industrial premises in the UK, has completed a series of property disposals in Australia, the US and Belgium that have realised £36.7m.

At the same time it has embarked on a new series of development projects in the the three countries that will cost £37.2m.

Mr Graeme Elliot, the vice-chairman, explained yesterday that the development programme reflected a high level of space take-up in the group's existing properties that had left it with a shortage of premises. Because the group is not involved in massive developments it can afford to continue its expansion programme without fear of any downturn caused by the shake-up on the markets.

The sales on the other hand are a mixture of mature developments and properties that it had not been the intention of the group to hold long-term.

In Australia, Slough has sold a Melbourne office building and a Melbourne industrial estate to realise a total of £16.6m. The sale in the US covered a suburban shopping centre in Chicago for £8m. Disposals in Belgium involve a shopping centre at Tournai, an industrial estate at St Niklaas first acquired in 1962, and a Brussels office building completed for the European Parliament - they realised £12.1m.

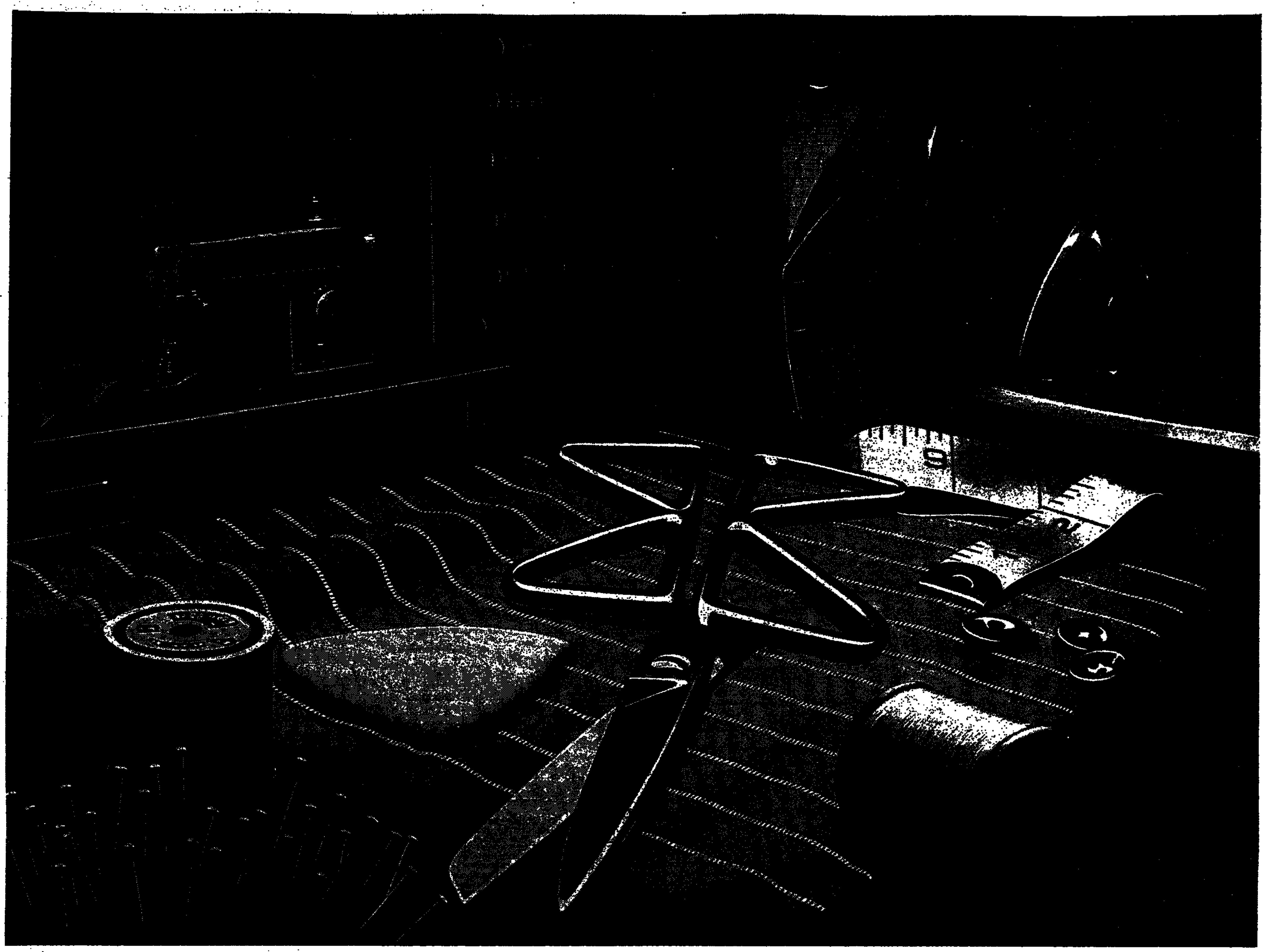
The development programme covers a new industrial estate in Melbourne and smaller developments near Sydney, two business parks in Chicago and industrial-business parks around Brussels.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding div	Total for year	Total last year
Assd Brit IndØ ......fin	3.5	Jan 11	2.93	6.5	5.59
Cramphorn ....fin	4.5	-	4.5	7	6.17
Hambros Inv Tst ...int	2‡	-	1.2	-	5
RFK Group § ....int	0.73	-	-	-	-
York Mount§ ....int	1†	Dec 18	1	-	2

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §Unquoted stock. ØThird market. ‡To reduce disparity.

THE INTEREST rate for this week's issue of local authority bonds is 9$\frac{5}{16}$ per cent, down $\frac{1}{16}$ of a percentage point from last week. The rate compares with 11 per cent at this time last year. The bonds are issued at par and are redeemable on November 9 1988. A full list of issues will be published in tomorrow's edition.



UK COMPANY NEWS

RHM denies Goodman a seat

BY NIKKI TAIT

TALKS BETWEEN Sir Peter Reynolds, chairman of Ranks Hovis McDougall, and Mr Pat Goodman, head of Australasian food combine Goodman Fielder, have resulted in a renewed refusal by the British group to grant Goodman a boardroom seat - despite the increase in its Ranks stake to 29.9 per cent.

RHM has consistently stressed that Monday's meeting in Auckland was no more than a courtesy call during a pre-arranged visit by Sir Peter to New Zealand, and that its attitude to Goodman - an unwelcome shareholder whose latest share purchases were a hostile move - was unchanged.

Goodman, however, maintains that the near 30 per cent holding has a right to be recognised, and says that the lack of boardroom representation is "unsatisfactory."

In New Zealand, Mr Goodman made clear his aim of forming an international food giant - "We've always wanted to be in a position for merge with Ranks, I made no secret of it" - and said that despite the boardroom rebuff, the company would be equity-accounting its RHM stake.

Last night in Sydney, Mr Duncan McDonald, Goodman's managing director, added that the Australasian company had not yet decided what its next move would be. One possibility immediately mooted by analysts was for Goodman to requisition a shareholders' meeting and press for representation that way.

Mr McDonald did, however, stress that Goodman stood by its earlier statement that it would not bid for the British company for at least six months. "We hope to have further talks with RHM," he added, although no new dates for a meeting have been fixed.

Suggestions that Ranks might be offered the 14.6 per cent stake in Goodman, currently held by Wattie Industries - the New Zealand food-processing business with which it is currently merging - were dismissed by Mr McDonald as "complete speculation".

"The shares can be held for 12 months, cancelled or placed - we haven't decided what to do."

Goodman acquired its initial 14.6 per cent stake in RHM from S & W Berisford back in August 1986, and prevented any dilution through market purchases during and after RHM's £218m bid for Avana. In August, it purchased the 4.5 per cent stake in RHM held by another New Zealand food group, Fletcher Challenge, and then lifted its holding to the current level in the wake of Black Monday's plunge in share prices.

However, any assault by Goodman was always viewed as unlikely until the Wattie merger was cleared by the New Zealand Commerce Commission. Clearance was given last month and the merger takes effect in three weeks time.

Last night RHM closed 2p higher at 281p.

●Yesterday Goodman also confirmed that it was holding talks with AFP Investment Corporation, the Australian investment group, over the agreement by AFP to purchase the company's 13.8 per cent stake in Elders IXL, the Australian brewing, pastoral and finance conglomerate. AFP is best known in Britain for its buy-in at Gestetner and is controlled by businessmen closely connected with Elders' chairman, Mr John Elliott.

The discussions concern option agreements under which AFP can require Goodman to sell 144m Elders shares at A$5.24 a share in the first half of July next year. Equally, Goodman can require AFP to buy on the same terms.

The agreements were struck ahead of the stockmarket plunge, however, and Elders shares are now trading at around A$3.10, having been as low as A$2.30. Goodman is, however, on record recently describing the deal as "watertight."

Corroon & Black lifts stake in Minet

Corroon & Black, an American insurance broking group, has taken its stake in Minet, London insurance broker, up from 25 to just under 30 per cent after buying 3.8m shares on the open market in London on Monday.

New York-based Corroon, the sixth biggest US broker, said the extra purchases were made "for investment purposes". They reflected its confidence in Minet's management and operating position, said Mr Bob Corroon, the chairman and chief executive.

The US company's big buying orders lifted Minet's share price on Monday by 15p to 352p. Assuming an average price of 350p, the purchases will have cost Corroon about £13.3m.

Corroon is one of two US insurance-related institutions with big holdings of Minet shares which have generated frequent takeover speculation around the British company. The other is St Paul, a Minnesota-based property/casualty insurer, which holds 25.7 per cent of Minet.

Mr Brian Chapple, Minet's group finance director, said there had been no talks between Minet and Corroon before this week's purchases.

"Knowing Bob, I would think that bearing in mind the way markets have been moving he just saw a good investment opportunity," Mr Chapple said.

Minet's shares were trading at about 390p before last month's stock market collapse. Following Monday's purchases, Corroon now holds 23.2m Minet shares, or 29.9 per cent, compared with 25.1 per cent last week.

Maxwell buying compact disc maker in £24m deal

BY RAYMOND SNODDY AND DAVID THOMAS

MR ROBERT MAXWELL'S Maxwell Communication Corporation yesterday took control of Nimbus, British compact disc manufacturer, in a deal worth £24m.

The acquisition gives Mr Maxwell direct access for the first time to manufacturing capacity for CD-ROM discs which are becoming increasing important as a medium for storing vast quantities of information. A single CD disc can store as many as 100,000 pages of text in digital form and the technology is becoming increasingly competitive for the storage of complex technical manuals.

Mr Kevin Maxwell, chief executive, publishing, said yesterday, "This is going to become one of the dominant media of the future, whether for information or audio."

He added, "We want to work with Nimbus to exploit the potential in the medium for publishing and communication purposes."

The Maxwell organisation, which is putting in £20m in working capital as part of the agreement, is mostly interested in the CD-ROM side of the business. Nimbus, the largest UK-controled CD manufacturer, has the right to buy back its classical music label at any time.

Nimbus, based in Monmouth, South Wales, had pre-tax profits of £2m on sales of £19.5m in the year to the end of September. As part of the agreement the company has warranted that it will have profits of £12.9m in 1989.

Mr Gerald Reynolds, Nimbus' technical director, said the link with Mr Maxwell's Pergamon publishing unit would help Nimbus develop its activities in CD-ROM. Nimbus would be able to provide CD-ROMs for an arm of Pergamon which markets them outside the Maxwell group and also for the large potential in-house demand by for the storage of information contained in its technical publications.

Nimbus was one of the first UK companies into the CD-ROM market when it started making them last month as part of its programme of adding new activities to its core compact disc pressing business.

The company was the first by almost two years to make compact discs in the UK when it set up a plant in South Wales in 1984.

However, during the past year compact disc prices have come under pressure as a large amount of capacity has come on stream worldwide. The company has had to shed more than a third of its workforce in two stages this year in order to stay competitive.

Mr Reynolds said that the injection of cash through the tie-up with Mr Maxwell would help with the planned expansion of its compact disc capacity.

●Mr Maxwell's Bishopsgate Investment Trust now holds 8.7 per cent of De La Rue's share capital, it was announced yesterday. Mr Maxwell said last week he did not intend to build up his stake beyond 15 per cent.

RKF in cash call for acquisitions

BY DAVID WALLER

RKF Group, a building services mini-conglomerate which joined the USM in April, is braving lugubrious stock market conditions to hold a 4-for-5 rights issue. The £7.34m raised by the issue this will help finance the acquisition of five companies for a mixture of cash and shares.

In total, RKF's equity base will more than double following the transaction, as will the company's turnover and net assets. Analysts at Paribas Quilter Securities, RKF's broker, forecast that pre-tax profits for 1988 will amount to £3.5m, seven times the profits for 1986.

One of the companies being purchased, Grange Press (Southwick) will take RKF into the entirely new area of printing; the other companies complement its existing businesses of heating, engineering and home services.

Some 5.2m new shares will be issued to the vendors in addition to £6m in cash, valuing the companies purchased at approximately £12m. This assumes a price of 112p per share - the price at which the shares were suspended for a day yesterday to allow the market to digest the impact of the acquisitions. The rights issue shares are being offered at 85p, a 24 per cent discount to the suspension price.

Mr Bob Francis, RFK's chairman, said that the company had been obliged to issue more shares to finance the cash element of the transaction than would have been the case prior to the market crash. But that dilution was worth it, he said. "Our order books are full and the prospects for all our companies are fantastic. The crash has not affected our business in any way - it was just a little hiccup."

RKF, which came to the USM with a market capitalisation of £6.5m, yesterday announced pre-tax profits of £222,000 for the six months to the end of June. Turnover was £3.7m, and no comparable figures were given. Shareholders wil be paid an interim dividend of 0.73p.

Hard Rock changes float tack

BY RICHARD TOMKINS

Hard Rock International, the company which runs the Hard Rock Cafe restaurants in London, New York and Dallas, has dropped plans to seek a flotation through a placing and is coming to the London stock market through an introduction instead.

The company's shares have been traded on Harvard Securities' over-the-counter market since 1983 and on the American Stock Exchange since earlier this year. Its market capitalisation is about £70m, some 24 times earnings in the year to June.

Hard Rock had hoped to give some of the existing UK shareholders the chance to sell shares when it was floated on the London market, but joint chairman Mr Barry Cox said that the recent market crash meant this plan was no longer in the company's or the shareholder's interests.

The introduction is sponsored by stockbrokers Capel-Cure Myers.

Hard Rock restaurants serve American food and drinks to the accompaniment of loud rock music in premises decorated with rock memorabilia.

The first was opened in London in 1971 and quickly became well known. In 1982 the co-founders, Mr Isaac Tigrett (now joint chairman) and Mr Peter Morton, decided to split the business, leaving Mr Morton with rights to the business in western parts of the US, Australia, Brazil, Israel, Venezuela and parts of British Columbia.

Since then, Mr Tigrett's branch has established franchises in Stockholm and Reykjavik and a joint venture in Tokyo, as well as the two restaurants in New York and Dallas.

Pre-tax profits have risen from £320,000 in 1983 to £4.52m in the year to June. The latest figure was boosted by the sale of area franchise rights in the Caribbean and certain US cities for £905,760.

WPP in further acquisition

BY NIKKI TAIT

WPP, the UK marketing services company which four months ago won a £351m bid for the substantially larger Madison Avenue-based JWT Group, yesterday hit the acquisition trail again. This time, though, ambitions are more modest - it is paying a maximum £1.5m for corporate film and video producer, The Mighty Movie Company.

Moreover, WPP - whose shares, already weak in the aftermath of the JWT bid, have halved since Black Monday to the current 436p - will fund the deal in cash.

The total consideration, subject to a maximum £1.5m, will be based on a multiple of seven times average post-tax profits for the three years to end-March 1992. WPP will pay an initial £300,000 on completion and the remainder in profit-related, stage payments over the next three years.

MMC was founded in 1974 and its client list includes the likes of British Airways, Manpower Services, Nationwide Anglia, the Pru and the Royal Navy. It reported sales of £465,000 in the year to end-March 1987 and adjusted pre-tax profits of £81,000

MMC is actually being purchased by Metrovideo, WPP's audio-visual and video communications subsidiary. WPP acquired Metrovideo just over a year ago, and in the year to end-March, the subsidiary made £698,000 pre-tax on sales of £3.98m.

This is the fourth acquistion by WPP since it secured JWT; in August, it announced three deals with total maximum value of £23m, involving two non-media advertising companies in the States and a graphics and design business in the UK.

Cramphorn rises 24% to £0.69m

Poor weather, particularly in May and June, hit sales at Cramphorn, USM-quoted garden centre operator, in the year to July 4 1987. However directors said that margins and costs had been held enabling pre-tax profits to rise by 24 per cent.

Turnover improved from £15.07m to £15.97m for pre-tax profits of £684,000, against £550,000.

Earnings per 50p share were up from 22.65p to 30.05p. An unchanged final dividend of 4.5p is being proposed making a total for the year of 7p (6.17p). A one-for-one scrip issue is also being recommended.

The tax charge was £249,000 (£223,000).

Despite inclement weather sales in the present year were ahead by 4.5 per cent

Glynwed in further expansion

BY PHILIP COGGAN

Glynwed International, the fast-growing West Midlands industrial group, is making another acquisition. It is paying a maximum of £4m for J. Baguley & Sons, a building products supplier.

Baguley, which is based in Lancashire, is the second largest supplier of copper hot water cylinders to the UK building industry. Its sales in the year to October 31, 1987 were around £5.5m and its pre-tax profits are expected to be not less than £750,000.

York Mount £0.47m midway

York Mount Group, the USM-quoted trailer hire, property and printing group, reported a generally successful half year with pre-tax profits of £474,000 to June 30, 1987. This compares with £976,000 for the whole of 1986.

Turnover for the half-year for the Leeds-based group. The interim dividend was held at 1p and earnings per 10p share were 1.88p (4.61p for 1986). Tax was £180,000 (£378,000). (All comparison figures are full-year and include 15 months in respect of CSL, which was acquired last December).

The directors said that CSL's operations remained the core business activity of the group and results were ahead of expectations.

Turnover in the printing subsidiary had been depressed by loss of business from a previously associated company.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims- Atlantic Resources, German Securities Investment Trust, German Smaller Companies Investment Trust, Reed International, Sketchley, Smallbone.

Finals- Alva Investment Trust, Malaric Hygrade Gold Mines.

FUTURE DATES

Interims-	
Fobel International	Nov 5
Futura Holdings	Nov 9
Goldberg (A.)	Nov 5
J S Pathology	Nov 18
Jurys Hotel	Jan 7
Lilley (F.J.C.)	Nov 11
Rexmore	Nov 23
Sonic	Nov 13
Stoddard	Nov 9
Yorklyde	Nov 5
Finals-	
Moran Tea Holdings	Nov 10

EFM in £1m Australian deal

BY NIKKI TAIT

Edinburgh Fund Managers, the Scottish investment management company which earlier this year moved up from the USM to a full listing, is taking 100 per cent control of Sydney Fund Managers, a private Australian fund management business which it helped set up in 1985.

EFM is paying A$2.87m(£1.1m) in cash for the outstanding shares in SFM - 73.35 per cent of the ordinary and 63.17 per cent of the preference.

The Australian company runs three closed-end funds plus a superannuation fund, and had funds under management of A$75m by end-July. EFM has advised principally on Japanese investment policy.

At end-January 1987, SFM's net assets were A$1.94m - represented almost entirely by cash, says EFM - and in the first full year of fund management operations, the Australian company made a pre-tax loss of A$3,633. The loss was scored after formation expenses of A$9,547.

Geers Gross pulls out of US

BY FIONA MCEWAN

THE AMERICAN ARM of Geers Gross, advertising agency, is to be acquired by the New York-based Interpublic Group through its subsidiary agency, McCann-Erickson.

The consideration of $13m (£7.5m) represents about one year's income of Geers Gross Advertising Inc. based in New York with annual billings of $125m. The price is subject to reductions if income in 1987 is less than $13m.

The decision to pull out of the US comes after a recognition that the company lacked critical mass, which it argued, jeopardised its ability to compete effectively.

If approved by shareholders the deal will be completed on Jan 4 next year.

Of the consideration, $750,000 is to be paid on signing of the agreement and a further $8.25m in Jan 1988. The balance will be paid in two instalments of $2m, subject to the income conditions, the final payment being not later than June 1988.

In an attempt to staunch the exodus of business and salvage its reputation, Geers Gross restructured its management team at the end of last year. According to Mr Bob Gross, executive creative director and founder, the US sale will eliminate debt and give the company cash surplus that would accelerate its recovery. Recent signs of improvement included account wins such as General Accident and L'Oreal.

APPOINTMENTS

Guinness group treasurer

On January 1 Mr Ian Scott becomes group treasurer of GUINNESS, succeeding Mr John Coles, who is retiring. Prior to this appointment Mr Scott held posts in financial accounting and treasury with Rediffusion and Fisons.

*

Mr Norman MacLeod has been appointed director of customer support at COMPAREX INFORMATION SYSTEMS.

*

Mr Laurie Graveling has been appointed production director of ABBEYGATE. He was general manager.

*

Mr Richard Thurbon has been appointed service director of HEIDELBERG GRAPHIC EQUIPMENT. He was general service manager.

*

Mrs Carole Bailey, Mr Tony Moorey, and Mr Neil Smith have been appointed to the board of FABRICATED ALUMINIUM SERVICES.

*

Mr John Tompkins, group financial director, has been elected chairman of BRANDS HATCH LEISURE in succession to the late Mr John Foulston. Mrs Mary Foulston has joined the board. Mr John Webb, chief executive, becomes chairman of Brands Hatch Circuits and other subsidiary companies of Brands Hatch Leisure.

*

Mr Christian Menard, general manager of CREDIT LYONNAIS, London, is returning to head office to a post in the international division. Mr Jean-Claude Goubet, deputy general manager, has been promoted to general manager, UK branches. Mr Goubet is succeeded as deputy general manager, UK, by Mr Christian Ramanoel, who was a director of Credit Lyonnais Bank Nederland.

*

Miss Kim Osborn has been appointed an assistant director of HEATH NORTH AMERICAN REINSURANCE BROKING.

*

SOUTHEND STADIUM has appointed Mr Derek Reynolds to the board as executive director working on overall corporate development. He was a partner with Titmuss, Sainer & Webb.

*

Mr K.R. Bilby has been appointed an executive director of HOGG ROBINSON (NON-MARINE REINSURANCE BROKERS), and Mr J.K. Allen joins the board as a director, both responsible for the development of American reinsurance business.

*

Mr Ron Marler, deputy chairman, has become chairman of the VINTEN GROUP following the retirement of Mr Michael Brown.

*

GRAHAMS RINTOUL & CO has appointed Mr Philip Lovegrove as a director. He joins from Gartmore Investment Management.

*

ATLANTIS PAPER CO has appointed Mr Iain Ferguson as a non-executive director.

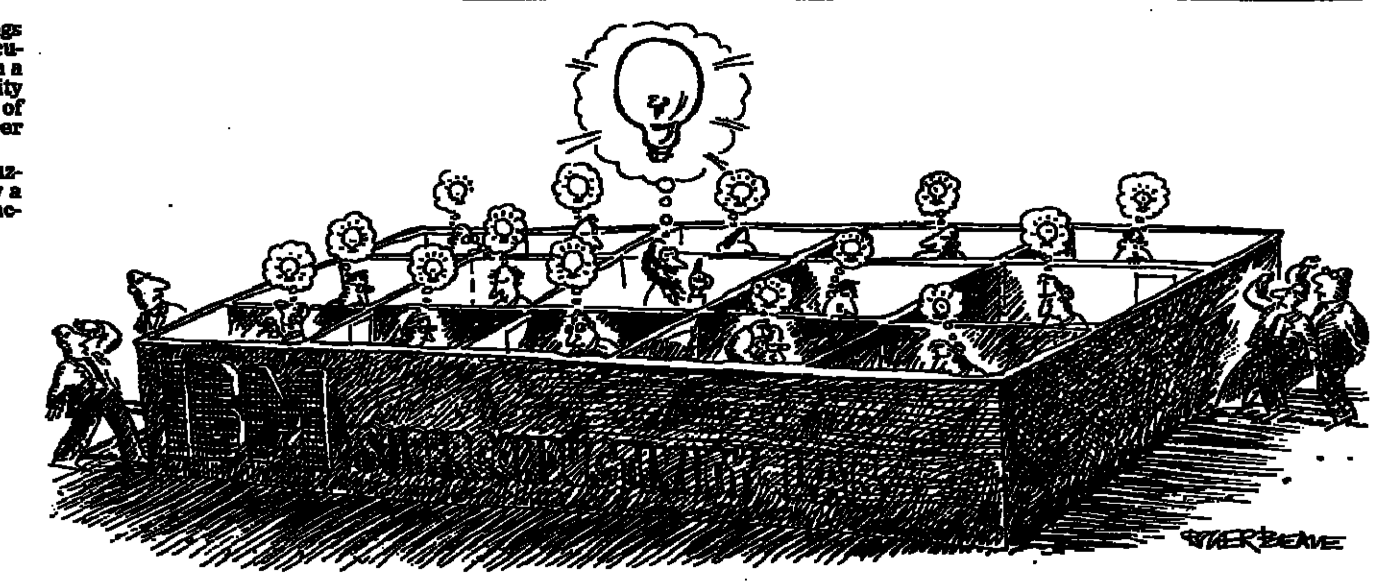
*

Mr Stuart Fenwick has been appointed to the board of VALIN POLLEN. He is head of the film and video production department.

*

BRITISH WATERWAYS has appointed Mr Ian Valder to the new post of commercial director with responsibility for the leisure and tourism and estates departments. The creation of the new post follows the retirement of Mr Peter Gerald, the former director of estates and takes full effect with the forthcoming retirement of Mr Bob Cotton, director of leisure and tourism at the year end. Mr Valder was business development director with Beecham.

TECHNOLOGY



Jane Rippeteau explains how superconductor research is blossoming at IBM's Yorktown research centre

Sparks fly in the glasshouse

IMAGINE A mattress. If two people lie on it, the springs give a little and form an indentation into which the occupants tend to roll. This is an analogy for what happens in a material that superconducts, that is, conducts electricity without resistance. Like two people on a mattress, pairs of electrons tend to roll together, then zip along as one in a "super current." Physicists call the phenomenon "the mattress effect."

But today, Mother Nature has these scientists thoroughly puzzled because the mattress effect cannot be used to explain why a new generation of superconductors work. The new materials function at temperatures so warm, compared to the old ones, that the heat would make the "mattress", or lattice of atoms making up the material, shake too much for the electrons to pair and stay paired through all the commotion.

Now, Paul M. Horn, an International Business Machines physicist has discovered a phenomenon that he expects will help explain just how the new materials do work. "We know the electrons pair very strongly," he says. "But we don't know why."

Knowing why is rudimentary to solving impediments to commercial use of the new superconductors - a market presumed to be worth billions of dollars eventually. These materials hold the potential of super-fast computers, cheap power transmission and extremely powerful magnets, but such dreams are only possible if the brittle material can be manufactured into useable wires, thin films or other industrial shapes. And their ability to carry large amounts of current at once - without pressuring the electrons so much that they split - is another problem.

Horn's work, outlined in a paper recently submitted for publication to the industry's prestigious Physical Review Letters, joins a mountain of data on these subjects gathering around the world.

A healthy share of the output has emanated from behind the curved black glass walls of the building where Horn and his colleagues work: IBM's Thomas J. Watson Research Center at Yorktown Heights, New York.

A visit inside helps explain IBM's outpouring. In one room, a young scientist in blue jeans surveys the resources at his command: A sophisticated personal computer(PC) on his desk, two additional monitors - one colour, one monochrome - linked to a host mainframe elsewhere, and a huge grey marker board stretching across one wall, with multi-coloured pens at the ready for impromptu "brainstorming" sessions.

Across the sunlit hall is the 36-year-old physicist's own laboratory. His brief to develop a thin film of the new superconducting material qualifies him for a "three-module" lab, measuring 12ft × 24ft. It is full of equipment, decked out with a radiation-proof chambre, butcher-block-topped work benches, a tank of liquid helium and another of liquid nitrogen for experiments, shelving, cupboards and yet more computers.

"The computers automatically record every test, and every fabrication attempt," says the scientist, Roger Koch. "I can take the floppy disk out of the computer in the lab and put it into my PC in the office to analyse results."

Koch, whose set-up would be the envy of many a UK scientist working on superconductivity, is one of about 50 specialists in the technology, half of them full-time, at the Watson lab. IBM carries on additional research in superconductivity at Almaden in California and in Zurich, Switzerland.

It was in Zurich a year ago that two IBM scientists, K. Alex Mueller and Georg Bednorz, set off the stampede of superconductor research this year when they discovered a material that would superconduct at warmer temperatures than anything previously known.

Specialised materials in limited use today have to be chilled to absolute zero to slow their atomic activity enough to make them superconducting. The metallic oxide found by Mueller and Bednorz worked well above zero, and led to discoveries of compounds functioning all the way up to 98 degrees Kelvin. That temperature, while still extremely cold (-175 deg Celsius), is easy to achieve and maintain with inexpensive liquid nitrogen. On October 14, Mueller and Bednorz won the Nobel Prize in Physics for their discovery.

Alex Malozemoff, overall coordinator for IBM's superconductor research, concedes that "the enthusiasm coming from that IBM breakthrough" still fuels excitement among IBM scientists. Along with hundreds of competitors worldwide, they are trying to resolve the technical impediments to using the compounds in industry.

Malozemoff will not specify the total number of scientists or what sliver of the company's US$400m-a-year research budget is allocated for work in superconductivity. Although there have been expenditures for capital equipment, Koch says IBM had an advantage in that the lab already had much of the necessary equipment, including a device called a triple electron beam evaporator needed to fabricate superconductors. Some rivals, he says "had to order one. That can take six months."

IBM must invest because of superconductors' potential to transform the computer business. Worldwide, research is fragmented, and IBM runs the risk a rival will acquire proprietary technology first.

Its investment has paid off. In May, a team in Yorktown led by Praveen Chaudhari, vice-president for science, showed it was possible to get beyond one obstacle to commercialisation when they demonstrated the new materials could carry 100 times more electrical current than first thought.

Recently, others at Yorktown dissolved another worry about the new superconductors. Along with scientists at the University of Rochester and Cornell University, both in New York State, they dispelled fears that the new metallic oxides would be unable to carry the ultra-high frequencies required for data transmission. They are, indeed, capable of very high transmission rates, possibly equal to or exceeding that of optical fibre now in use for telephone transmission.

IBM, of course, is primarily interested in potential computer applications. It hopes to get the performance of optical transmission without the problem of having to convert electrical computer signals into light signals and back again. The superconductor "probably has not as high a bit rate as optical fibres," says Malozemoff. "But we don't want to use optical fibres in computers anyway." The problem of fabricating the metallic oxides into useable wires still remains, however.

Another group of researchers under Alan Kleinsasser is following up on any possible connections between the new superconducting materials and Josephson junction technology. The Josephson junction refers to a theory for building a computer switching device that is both extremely fast and uses very little power.

IBM several years ago abandoned efforts to build a Josephson computer, but a small part of the team kept an eye out for other applications of the technology. "Now high-temperature superconductors have come along," says Kleinsasser. "All of a sudden I'm handed this extra shovel full of rationale for transistor-like devices. The question is: does somehow incorporating a superconductor in a semiconductor device help you? It's an opening area."

Even more esoteric is Horn's discovery concerning the basic physics of the new superconducting material. Through a series of tedious experiments begun in June, he and his team have analysed an yttrium, barium, copper oxide and found that at the moment the material becomes a superconductor, its normal atomic lattice deforms into a rhomboid shape. Conventional superconductors also distort, but equally in all directions.

To those in the know, this cryptic bit of information indicates that the electrons - the same ones that used to pair on the mattress - may instead be suddenly beginning to spin in the same direction as they would in a magnet.

"When we made this discovery, oh, was I excited," says Horn.

He will continue his work, testing other superconducting materials to see whether they behave the same way. "This is a wonderful environment for doing this kind of research," he says. "Resources are not unlimited, but compared to a lot of other places, it's very good."

The ability to let scientists pursue hunches and theories is a luxury. But uncovering the secrets of the new superconductors may require just that, for the answers are far from clear. Says Malozemoff, borrowing from the Bible: "We see through a glass, darkly."

Philips displays an extra degree of promise

"A hint of something that bodes tremendous promise," as one scientist puts it, has emerged from a North American Philips research laboratory in Westchester County north of New York City. Scientists the world over are trying to reproduce the experiment.

If they can, another giant step in new superconductor technology will be confirmed.

Ramesh Bhargava, department head in Material Physics at the Philips Laboratory, has developed a technique for consistently fabricating superconducting material that works at temperatures well above the current top level of around 95 deg Kelvin (minus 182 deg Celsius).

Since "warm" superconductors working at temperatures easily reached with inexpensive liquid nitrogen made their debut this year, there have been a number of reports of yet other compounds glimpsed working at room temperature. But Bhargava's technique of first heating the material to 240 deg K and then cooling it slowly produces a material that for several days can conduct electrical current without resistance at 130 deg K, he says. Some samples with fluoride work at 160 deg K.

"That's a phenomenal increase," says Paul M. Horn, a physicist working in superconductor technology at International Business Machines Corp. "A year ago, we thought we would never see anything above 20 deg K."

Horn adds that if Bhargava's work bears out, it will have an impact on all areas of research in the science, including fabrication and adaptation of the materials to commercial use.

Moreover, Horns adds, it hints at how the new superconductors work. Bhargava says his work reveals that at specific higher temperatures, chains of copper and oxygen atoms form in the materials and create channels. Simply put, he says, these channels "allow the electrons to pass unencumbered, leading to the superconducting effect."

WORTH WATCHING

Edited by Geoffrey Charlish

Japanese advertisers reach for the sky

AIRBORNE ADVERTS will soon be a familiar sight in the night sky over Tokyo, put there by technology from two UK companies.

The electronic night signs will cover 2,000 square feet of the surface of a 600 class airship and the whole enterprise has been put together by Airship Industries using light emitting diodes from IMO Electronics of London.

Under the control of a computer, a matrix of 3mm red and green diodes can produce 1,600 hues on panels on each side of the airship. Each panel is made up of some 9,000 picture elements which can be refreshed 25 times a second, allowing video images to be displayed.

The skysigns are able to display from source material on video tapes, from live TV transmissions, or using graphics generated on board the airship.

It is understood that if permission can be obtained from the Civil Aviation Authority in the UK, the signs will soon be appearing over London.

Rolling out a cleaner barrel

SPARKLING CLEAN beer kegs will soon be arriving at the local pub if an ultrasonic keg cleaning system developed by MCG Techno Pack in the UK comes into wide use.

The prototype washer has been on trial at Whitbread's Tiverton brewery in Devon and the brewer has taken purchase options on a further nine machines following exhaustive testing. Techno Pack says that Japanese breweries are already showing interest in the system.

Called Ultra Clean, the system can handle over 500 kegs an hour and occupies only 40 feet of line space. After a mechanism turns the kegs on their sides, they move on a conveyor into a hot detergent soak tank and pass over ultrasonic generators which pulsate 30,000 times a second.

The resultant scrubbing action releases dirt and the kegs are then washed with a jet of hot detergent solution for final cleaning and the removal of labels. After a final rinse, the kegs are ready to be filled with beer.

Brain activity put on the map

A PRECISE method of "mapping" activity in the human brain, by detecting its magnetic fields, is under development at Los Alamos National Laboratory in the US. The method is important because it is non-invasive (nothing is attached to or implanted in the head). It could help to diagnose Alzheimer's and Parkinson's diseases for example.

In a $4m collaborative venture with the US Veterans Administration Medical Center in Albuquerque, New Mexico, the laboratories will develop a research method called magnetoencephalography, or MEG.

Still in its clinical infancy, MEG is based on the basic electrical principle that a current flowing in a conductor always produces a magnetic field. In this case, the problem is to measure the extremely small fields resulting from the tiny currents produced by human brain cells.

These fields are one billionth the strength of the Earth's magnetic field. They "flicker" each time brain cells send signals over the body's 50-mile-long neural network. The fields extend, at extremely low levels, outside the body. By using sensitive enough sensors and a heavily shielded room to keep out all external fields, their position can be pinpointed to better than 0.1 inch.

The ultimate aim is to create a three-dimensional, functional map of the brain.

CONTACTS: IMO Electronics: London, 452 6444. MCG Techno Pack: UK, 0922 407650. Los Alamos National Laboratory: US, (505) 667 7000.

COMMODITIES AND AGRICULTURE

Namibia clears CDM of over-mining diamonds

BY JIM JONES IN JOHANNESBURG

THE NAMIBIAN Government has rejected most of the Thirion Commission's proposals on changes to taxation of mining companies operating in the disputed territory and, significantly, has found Consolidated Diamond Mines (CDM) not guilty of over-mining its diamond resources or transfer pricing.

Early last year the government-appointed commission of inquiry, headed by Pieter Thirion, a South African high court judge, found that CDM was deliberately over-mining diamond deposits and was evading tax by transfer pricing its diamond exports. The Thirion Commission also recommended that the Namibian Diamond Board, which is supposed to regulate CDM, should not be staffed by CDM appointees.

CDM, a wholly-owned subsidiary of De Beers, was invited to give evidence to the commissioners but declined on the grounds that the hearings were public. At the time the company also said investigation of its affairs fell outside the scope of the commission.

Judge Thirion was infuriated when De Beers responded to his commission's report by saying that it could satisfy an "impartial inquiry by appropriately qualified investigators" that it was not over-mining or excessively depleting rich coastal diamond reserves to the detriment of poorer deposits.

In a white paper published on Friday last week the Windhoek Government says CDM's activities fell outside the scope of the commission of inquiry which was established to investigate corruption and maladministration in the South African-run territory. The white paper finds it strange that CDM could justifiably be accused of over-mining after 65 years of operations in the territory and with only 10 years reserves remaining to be mined.

The white paper adds its view that CDM has consistently tried to improve operating efficiencies to enable it to extract progressively lower-grade ore at a profit. It rejects allegations of transfer pricing, saying Mr Martin Grote, the commission's investigator, lacked experience in international minerals marketing and that this led him to take a simplistic approach to the question of transfer pricing.

At the weekend Judge Thirion said the Windhoek Government's response to the report was immaterial to him. He questioned, however, whether government functionaries had carried out their responsibilities. "Failure to exercise control resulted, in the commission's view, in something undesirable occurring."

Alcan 'making progress' in labour talks

By Robert Gibbens in Montreal

ALCAN ALUMINIUM is entering its fifth month of negotiation with its 6,000 unionised smelter workers in Quebec and says progress is being made, although monetary issues have not yet been tackled.

Alcan, with 635,000 tonnes of ingot capacity in Quebec, is negotiating primarily with the Federation des Syndicats du Secteur d'Aluminium, representing all the Quebec smelters except a 84,000-tonne plant at Shawinigan, near Montreal. Another union has staged one-day stoppages at this plant and Alcan has closed it down indefinitely.

The company will not comment on reports that it may reopen the third potline at Sebree, Kentucky, to compensate.

The Federation has not yet taken a strike vote at the principal Quebec smelters and is playing down difficulties in negotiations.

The existing contract ran out on August 31 and both the company and the Federation say major issues such as contracting out, job transfers and seniority are complex and time-consuming. So far agreement has been reached only on work scheduled and the difficult issue of contracting out has been postponed till later in the negotiations.

●Aluminum Co of America said from January 4 it will eliminate all discounts and deductions from its prices for aluminum sheet used to make beer and beverage cans, **Reuter reports from Pittsburgh.** This will result in an increase of slightly over 10 per cent in selling prices of sheet used to make can bodies.

Rain threatens stranded cotton in Tanzania

BY PHILIP SMITH IN DAR ES SALAAM

RAINS ARE threatening more than 150,000 tonnes of harvested cotton in the lake regions of Tanzania, a Cotton Marketing Board official said this week.

The cotton is stranded in the open in the Mwanza, Shinyanga, Mara, Tabora, Kigoma and Kagera regions due to a lack of transport to ginneries and the ginning facilities to cope with the season's bumper crop, he added.

By October 22 this year, the TCMB had purchased 216,000 tonnes of cotton but only 16,000 tonnes had reached ginneries so far, he said. The majority of farmers have been paid on credit.

"It's the crunch time of the year but not much worse than last season," a local agricultural official said on Thursday (29 Oct). He said Tanzania was aiming to produce over 200,000 tonnes of cotton in the 1987/88 marketing season, which started on May 1. Last season 215,000 tonnes was produced, and the season before 103,000 tonnes, he added.

Meanwhile the European Community (EC) is negotiating to buy 13,000 tonnes of surplus maize from Tanzania for delivery to Malawi as food aid, a diplomatic source said this week.

The EC hopes to reach an outline agreement for the purchase within two weeks and deliver the maize to Malawi by the end of this year, they added.

The Tanzanian government, which is expecting a record 2.3m tonnes maize harvest this year, recently announced the sale of 53,000 tonnes of maize to Malawi, Mozambique and Zaire.

●Swarms of locusts have crossed the Sahara and invaded cultivated areas of Algeria and Morocco for the first time in 20 years.

WEEKLY METALS

All prices as supplied by Metal Bulletin (last week's prices in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 2,290-2,330 (2,270-2,320).

BISMUTH: European free market, min 99.99 per cent, $ per lb, tonne lots in warehouse 4.70-4.80 (4.65-4.80).

CADMIUM: European free market, min 99.95 per cent, $ per lb, in warehouse, ingots 2.95-3.05 (2.90-3.05), sticks 2.95-3.05 (2.90-3.05).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse 6.40-6.70 (6.45-6.70).

MERCURY; European free market, min 99.99 per cent, $ per flask, in warehouse, 298-308 (300-308).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse 2.88-2.95 (same).

SELENIUM: European free market, min 99.5 per cent, $ per lb in warehouse, 6.55-6.70 (6.45-6.65).

TUNGSTEN ORE: European free market, standard min 65 per cent, $ per tonne unit WO_3, cif, 44-55 (42-53).

VANADIUM: European free market min 98 per cent V_2O_5, other sources, $ per lb V_2O_5, cif 2.80-2.90 (same).

URANIUM: Nuexco exchange value, $ per lb U_3O_8, 16.65 (same).

Chicago plans gold and silver options

By Deborah Hargreaves in Chicago

FOLLOWING THE launch of its gold and silver futures in September, the Chicago Board of Trade has applied for approval to trade options on those contracts.

The new options, which have been filed with the Commodity Futures Trading Commission, would trade beside gold and silver futures in the CBOT's three-hour evening session as well as during the day. However, the modest trading volume in the 100 oz gold and 5,000 oz silver contracts has so far been mostly confined to the daytime sessions.

The new contracts have not caught on as quickly as the CBOT had expected them to. So much so that the CBOT has had to request a waiver of a CFTC rule of thumb that requires futures contracts be trading for at least a year with an average monthly volume of 3,000 lots, before an options contract is approved.

The CBOT's precious metals contracts are trading 500 lots a day on gold futures and 300 on silver. But the CBOT says it has demonstrated the exchange's underlying liquidity and as precious metals options themselves are not a new concept, it does not expect to have problems with a waiver.

The Chicago Mercantile Exchange has also requested a waiver from the CFTC rule in its application for gold options on its new futures contract as well as options on physical gold. The CME says the CFTC will consider its options on futures contract on November 17. The exchange has also applied to trade a 5,000 oz silver futures contract.

The options applications mark the latest attempt by the Chicago exchanges to move into the precious metals arena, although the respective futures contracts have had little success in denting the lead of New York's Comex. Comex has been trading gold options since 1982 and silver since 1984 and with gold trading around 7,500 lots a day and silver around 5,000, it is a lead that may prove hard to knock.

Finland looks for seed grain

FINLAND is looking for seed grain after one of its worst harvests in living memory, **Reuter reports from Helsinki.**

"If we can find any varieties abroad suitable for our climate and conditions, we will be interested in buying," a National Granary official said.

Finland has recently made inquiries about the possibility of buying seed grain from Sweden, its western neighbour, and the Soviet Union, its eastern neighbour.

Canute James looks at the Caribbean bauxite industry

Surinam sees signs of recovery

CARIBBEAN BAUXITE producers, whose output has been affected by factors ranging from weakened demand to guerilla warfare, are at last seeing signs of a recovery. Although the recent heavy fall in aluminium prices is obviously not good news it has not yet reached the stage where it would damage prospects for earnings from ore shipments. The region remains, however, far from the happier days of the 1970s when it accounted for about a quarter of world production of the ore.

Nowhere is the prospect of an improvement more welcome than in Surinam, where important bauxite mines which were closed last November after attacks by anti-government rebels, have been reopened. The reopening of the mines at the town of Moengo will ease the pains of Surinam's bauxite industry, the mainstay of the South American country's economy.

Officials of the Surinam Aluminum Company, a wholly-owned subsidiary of the Aluminum Company of America (Alcoa) say the company has started shipping bauxite ore from Moengo to its 1.2m tonnes per year refinery. Since the shutdown of the mining town, and the evacuation of its inhabitants, the refinery has been fed with ore imported from the Dominican Republic and Brazil.

"As the bauxite feed returns to normal from Moengo we will be decreasing our imports of ore from the Dominican Republic and Brazil," one company official said. "Although mining has again started we are still importing ore because we have to rebuild our stockpiles. Each day of peace brings us closer to a return to normal."

The company has delayed the reopening, however, of its 60,000 tonne per year smelter which was closed earlier this year when the rebels cut the plant's power supply by destroying electricity transmission lines. Some of the transmission lines have been repaired, returning electricity to Paramaribo, the country's capital.

"We did an evaluation in August on whether it makes sense to restart the smelter from a technical and commercial standpoint," The Suralco official said. He explained that the water level in the dam at the hydro-electric power station feeding the smelter was unseasonably low. "We have decided that the smelter will not be reopened before January, when we will again do an evaluation of the power supply situation." Company officials, however, refuse to comment on reports that they are studying proposals from the Surinam Government for state participation in the owership of the smelter in which Billiton, a subsidiary of Royal Dutch Shell, has a 45 per cent stake.

The shutdown of the Moengo mines and the smelter had a damaging effect on bauxite mining and refining, and on the economy of the former Dutch colony. In the first six months of this year Suralco's total exports fell 48 per cent below the corresponding period of 1986. The shutdown of the Moengo mines led to a halt in ore exports, against exports of 185,181 tonnes in the first six months of 1986.

Exports of alumina (aluminium oxide) fell 20 per cent below the 359,800 tonnes shipped in the first half of last year. Aluminum shipments of 13,934 tonnes between January and June of last year, were 80 per cent less in the corresponding period of this year. Government officials say the country's earnings from the industry, which totalled $240.4m in 1985, and $237.85m last year, will fall to about $100m this year. Across Surinam's western border, Guyana is hoping to reopen its state owned refinery which was closed five years ago. Mr Desmond Hoyte, Guyana's President, said recently that a

plan to rehabilitate the 300,000 tonnes a year plant was being worked out with companies in Brazil and East Germany and the local Bauxite Industry Development Company. Reynolds Metals of the US is to be a consultant for the project. The reopening of the plant, once owned by Alcan of Canada, was planned two years ago at a cost of $20m.

The efforts to restart refining in the country coincide with targets set by the state owned industry for output this year. Last year's production of all grades of bauxite was 1.5m tonnes, 500,000 tonnes short of the target for the year, and 100,000 tonnes less than 1985 production. In an effort to increase production the industry is hoping to lift output of calcined bauxite this year to 570,000 tonnes, 121,800 tonnes more than last year.

Chemical and metal grade output last year was 235,500 tonnes. The target for this year is 380,000 tonnes. Achieving this year's targets could have a significant effect on the industry's earnings, which are projected at $104.5m for this year, against $80.23m last year.

Jamaica, clinging to its position as the world's third largest producer, after Australia and Guinea, is experiencing a resurgence after a slide in output between 1980 and 1985, with production falling from 12m tonnes to 6.1m tonnes. The industry staged a recovery last year when ore output rose to 6.9m tonnes.

According to the Jamaica Bauxite Institute, a state agency which monitors the industry, output in the first half of this year rose to 3.8m tonnes, a 17.4 per cent increase on production in the corresponding period of 1986. Shipments of alumina between January and June this year grew by five per cent over the first half of last year to reach 794,675 tonnes.

The agency is projecting final output of bauxite ore for this year at 7.5m tonnes, 600,000 tonnes more than last year's actual production. It attributed the improved performance of the industry to an increase in production by the state-owned Clarendon Alumina Productions, which two years ago leased and reopened a 800,000 tonnes refinery from Alcoa.

Alcoa has said, however, that it will reclaim the refinery in February. Mr Gerry Dudley, the general manager of the company's Jamaican subsidiary, said the company will operate the plant at the rate 750,000 tonnes per year which Clarendon Alumina has been running.

Pre-quota rush breaks coffee export record

BY DAVID BLACKWELL

PRODUCING COUNTRIES belonging to the International Coffee Organisation exported 10.3m bags of coffee in September - a record figure for any one month.

The ICO preliminary figure, which compares with 7.2m bags exported in September last year, surprised the organisation, although it was aware that producers were exporting as much coffee as they could throughout September in the expectation that an agreement on export quotas would take effect in October.

The figure was well above expectations which had ranged between 9m and 10m tonnes. The announcement had little impact on the London market, however, as there is a good physical demand from roasters at present. The price of three-month robusta was unchanged at the close on the London Fox at £1,285 a tonne.

Indeed, the level of coffee prices remains high enough for the organisation not to have to reduce quotas further. The 15-day ICO average indicator price, which the organisation uses as its measure for the International Coffee Agreement, yesterday stood at 111.83 cents a lb.

If the indicator price had not reached a level of more than 110 cents a lb, the ICO was bound under the agreement hammered out last month to reduce the export quota figure by 1.5m bags to the equivalent of 55m bags for this year.

The quota agreement, struck with the aim of boosting prices at a time when too much coffee is chasing too few buyers, provides for a further cut of 1m bags in a fortnight's time if the indicator price is not above 113 cents a lb.

The ICO set the quota for remaining quarter of this year at an annual equivalent of 58m bags - which many observers felt was too high. Only two days after the agreement came into effect, the first quota cut had to be made.

Traders mystified as gold falls sharply

BY KENNETH GOODING

DEALERS IN London yesterday were mystified by a sharp drop in the gold bullion price during the afternoon fix to $465.25 an ounce, down $5.85 on the morning price.

One explanation for the fall might be that central banks are selling gold in order to depress the price and head-off an even faster flight from the dollar.

However, although there was extremely good, two-way business yesterday, London dealers were not convinced the central banks were involved.

"It is all very, very odd", said one. "There is no real logic to what is happening".

Gold held steady compared with Monday morning at $470 at the morning fix in spite of some strong selling but dived shortly after New York opened.

The afternoon fixing session lasted longer than normal, taking about 40 minutes as dealers attempted to find a level acceptable to buyers and sellers.

A dealer suggested gold should be $500 because of the weakness of the dollar and stock markets.

The precious metal's failure to move higher as the dollar has fallen is now prompting liquidation of "long" positions, traders noted.

New York had been expecting a small increase in the bullion price but the market opened lower. Gold futures fell sharply. The indications were that fund managers were closing long positions.

In Zurich the gold price ended sharply lower in moderate trading, coming under selling pressure after the New York opening.

Dealers said the price held up until the early afternoon but then collapsed as disillusionment spread across the Atlantic.

The next chart support point for gold is seen as $460 and some dealers expect this to be tested before long.

INDICES

REUTERS (Base: September 18 1931 = 100)

Nov 2	Oct 30	month ago	year ago
1660.0	1645.5	1641.0	1594.4

DOW JONES (Base: September 18 1931 = 100)

	Nov 2	Oct 30	month ago	year ago
Spot	127.46	128.69	128.73	120.69
Future	128.34	127.75	131.42	121.42

LONDON MARKETS

COPPER AND aluminium continued to hold centre-stage in the London commodity markets yesterday - but the fortunes of the two metals were very different. Copper values were boosted as sterling fell back against the dollar while follow-through cash buying widened the premium over three months metal to £100 at the close. With fears that a strike at Southern Peru's Cuajone mine might spread to its facilities at Toquepala and Ilo providing a strong undertone the cash price closed £28.50 higher at £1,223.50 a tonne. In contrast aluminium prices came under heavy pressure from Japanese and European selling. Dealers also reported that speculative liquidation triggered stop-loss selling orders before the downturn in sterling revived prices somewhat in the afternoon. But the cash standard grade position still closed £55 down at £1,009.50 a tonne and the three months quotation £37.50 down at £958 a tonne. Dealers said the market remained very nervous and some doubted that it would fully regian its previous bull trend in view of the narrowing production/consumption shortfall.

LONDON BULLION MARKET

Gold (fine ounce)

	$ price	£ equivalent
Close	$465-465.5	£267.75-268.25
Opening	$470-470.5	£270.25-270.75
Morning fix	$470.1	£269.754
Afternoon fix	$464.25	£266.665
Day's high	$470.75-471.25	—
Day's low	$462.25-463	—

Silver (fine ounce)

	UK pence	US cts equiv
Spot	397.90	695.50
3 months	406.95	708.95
6 months	415.80	722.20
12 months	433.25	749.90

Gold & Platinum Coins

	$ price	£ equivalent
US Eagle	$478-483	£271.6-277.34
Mapleleaf	$478-483	£271.6-277.34
Krugerand	$464-467	£267-269
1/2 Krug	$244-253.5	£140.1-145.55
1/4 Krug	$121-129	£69.48-74.07
Angel	$477-482	£273.9-276.77
1/10 Angel	$47-52	£26.98-29.86
New Sov.	$109.5-110.5	£63-63.75
Old Sov.	$109.5-111	£63-64
Britannia	$478-483	£275-278.5
Noble Plat	$510-512	£292.85-294

LONDON METAL EXCHANGE TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Oct	Nov	Oct	Nov

Aluminium (99.5%)	Calls		Puts	
Strike price $ tonne	Jan	Mar	Jan	Mar
1650	108	106	78	123
1675	91	96	90½	137
1700	80	86½	104	151

Copper (Grade A)	Calls		Puts	
Strike price $ tonne	Jan	Mar	Jan	Mar
1950	114	102	92½	144
2000	91	83	119	174
2050	71½	67½	148	207

Copper (Standard)	Calls		Puts	
Strike price £ tonne	Jan	Mar	Jan	Mar
1125	57		42½	
1150	45		55½	
1175	35		70	

LONDON METAL EXCHANGE (Prices supplied by AMT)

	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 0 tonne
Cash	1745-55	1835-45		1690-710		
3 months	1675-85	1735-45		1645-60	unquoted	2,508 lots
Aluminium, 99.5% purity (£ per tonne)						Ring turnover 20,725 tonne
Cash	1007-12	1062-7	980	978-80		
3 months	957-9	995-6	980/935	935-6	959-60	62,868 lots
Copper, Grade A (£ per tonne)						Ring turnover 48,850 tonne
Cash	1223-4	1194-6	1224/1202	1205-6		
3 months	1124-5	1113-4	1124½/1113	1114½-5½	1121-22	82,389lots
Copper, Standard (£ per tonne)						Ring turnover 0 tonne
Cash	1190-95	1150-60		1175-80		
3 months	1123-28	1100-5	1165/1160	1104-6		39 lots
Silver (US cents/fine ounce)						Ring turnover 60,000 ozs
Cash	672-75	698-700		692-4		
3 months	685-8	712-4	709	706-8	687-92	582 lots
Lead (£ per tonne)						Ring turnover 9,375 tonne
Cash	337-9	343-5	337/336.5	335.5-6.7		
3 months	330-30.5	336-7	333/328	328-9	333-4	12,298 lots
Nickel (£ per tonne)						Ring turnover 1,758 tonne
Cash	3305-15	3340-50	3290	3280-90		
3 months	3295-305	3315-30	3305/3270	3270-2	3287-95	6,192 lots
Zinc (£ per tonne)						Ring turnover 12,050 tonne
Cash	441-2	448.5-9	440.5/440	440-40.5		
3 months	446-7	454.5-5	449/443	445-5.5	445-6	15,070 lots

SPOT MARKETS

Crude oil (per barrel FOB November)		+ or -
Dubai	16.95-17.00y	- 0.175
Brent Blend	18.35-18.40	- 0.15
W.T.I. (1 pm est)	19.40-19.45y	- 0.20

Oil products (NWE prompt delivery per tonne CIF December)		+ or -
Premium Gasoline	184-187	
Gas Oil	165-168	- 2
Heavy Fuel Oil	95-97	- 0.5
Naphtha	159-161	- 1
Petroleum Argus Estimates		

Other		+ or -
Gold (per troy oz)	$465.25	- 4.75
Silver (per troy oz)	397.90p	- 6.60
Platinum (per troy oz)	$513.00	-15.00
Palladium (per troy oz)	$114.50	- 2.75
Aluminium (free market)	$1695	- 150
Copper (US Producer)	88.50c	+ 0.50
Lead (US Producer)	42c	
Nickel (free market)	270c	
Tin (European free market)	£4080	- 10
Tin (Kuala Lumpur market)	17.20r	+ 0.04
Tin (New York)	323.5c	+ 1
Zinc (Euro. Prod. Price)	$820	
Zinc (US Prime Western)	43.375c	
Cattle (live weight)†	97.31p	+ 2.34*
Sheep (dead weight)†	188.81p	+15.16*
Pigs (live weight)†	73.98p	+ 0.59*
London daily sugar (raw)	$187.00	- 2.00
London daily sugar (white)	$193.50x	+ 0.50
Tate and Lyle export price	£213.50	- 2.00
Barley (English feed)	£109.00	+ 1.00
Maize (US No. 3 yellow)	£133.00	- 0.50
Wheat (US Dark Northern)	£89.25	- 2.50
Rubber (spot)¶	61.75p	
Rubber (Dec)¶	64.75p	
Rubber (Jan)¶	65.25p	
Coconut oil (Philippines)§	$465x	- 5
Palm Oil (Malaysian)§	$347.5v	+ 2.5
Copra (Philippines)§	$320w	
Soyabeans (US)	$136.5	
Cotton "A" index	75.30c	+ 1.75
Wooltops (64s Super)	515p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lbs. r-ringgit/kg. v-Jan/Mar. w-Oct. x-Nov/Dec. y-Dec. z-Jan/Feb. † Meat Commission average fatstock. * change from a week ago. ¶ London physical market. § CIF Rotterdam

COTTON

Spot and shipment sales for the week ending October 30 amounted to 694 tonnes against 1942 tonnes in the previous week. Buying was moderate in the cotton market with trade occurring in various growths, the main ones being West African and American qualities.

JUTE

November/December c and f Dundee BTC $570, BWC $590, BTD $495, BWD $485; c and f Antwerp BTC $540, BWC $530, BWD $475, BTD $465.

COFFEE £/tonne

	Close	Previous	High/Low
Nov	1250	1249	1255 1244
Jan	1285	1285	1290 1275
Mar	1310	1315	1318 1300
May	1338	1342	1343 1330
Jly	1365	1360	1355 1352
Sep	1390	1370	1385 1376
Nov	1418	1400	1405 1405

Turnover: 5305 (4890) lots of 5 tonnes
ICO indicator prices (US cents per pound) for November 2: Comp. daily 113.26 (111.63). 15 day average 111.83 (111.21).

GAS OIL $/tonne

	Close	Previous	High/Low
Nov	164.50	167.00	165.50 164.25
Dec	165.75	167.25	166.00 164.75
Jan	165.25	167.25	166.00 164.75
Feb	164.00	166.00	164.00 163.50

Turnover 4776 (2121) lots of 100 tonnes

FREIGHT FUTURES £/index point

	Close	Previous	High/Low
Jan	1227.5	1232.0	1228.0 1222.0
Apr	1250.0	1255.0	1250.0 1242.0
Jly	1121.5	1134.0	1125.0 1120.0
BFI	1172.0	1172.5	

Turnover 349 (72)

GRAINS £/tonne

Wheat	Close	Previous	High/Low
Nov	109.40	109.45	109.65 109.40
Jan	112.00	112.25	112.60 112.00
Mar	114.05	114.25	114.50 114.05
May	116.35	116.70	116.95 116.35
Jly	118.85	119.10	119.40 118.85
Sep	102.40	102.00	102.40 102.25
Nov	104.15	103.90	104.15 104.00

Barley	Close	Previous	High/Low
Nov	105.60	105.85	106.20 105.60
Jan	106.85	107.25	107.65 106.85
Mar	108.75	109.30	109.65 108.75
May	110.55	111.00	111.00 110.55
Sep	98.10	98.50	198.10 198.90
Nov	101.20	100.75	101.20 101.00

Turnover: Wheat 299 (202), Barley 238 (85). lots of 100 tonnes.

POTATOES £/tonne

	Close	Previous	High/Low
Nov	85.00	86.10	85.90 85.00
Feb	101.00	101.30	103.00
Mar	88.80	90.50	89.00
Apr	151.20	149.70	152.90 148.50
May	164.80	163.00	165.50 164.00
Nov	75.00	75.00	

Turnover 889 (1007) lots of 100 tonnes.

SOYABEAN MEAL £/tonne

	Close	Previous	High/Low
Dec	130.00	131.00	
Feb	131.20	132.50	132.00 131.50
Apr	131.50	132.50	
Jun	123.00	124.00	
Aug	122.00	123.00	122.00
Oct	123.00	123.50	
Dec	126.00	128.00	

Turnover 103 (91) lots of 100 tonnes.

SUGAR ($ per tonne)

Raw	Close	Previous	High/Low
Dec	161.00	163.00	161.00 161.00
Mar	167.20	169.00	170.20 166.40
May	168.40	170.20	171.20 168.20
Aug	170.00	172.00	172.00 169.20
Oct	171.20	173.00	174.00 170.60
Dec	174.00	176.60	
Mar	180.00	182.80	

White	Close	Previous	High/Low
Dec	193.50	194.50	195.50 193.00
Mar	199.00	200.20	201.20 198.00
May	205.00	204.40	204.00 203.50
Aug	207.00	208.00	209.00 206.00
Oct	210.00	208.50	210.00 207.40
Dec	211.50	210.00	
Mar	217.50	218.00	

Turnover: Raw 1992 (3669) lots of 50 tonnes. White 1786 (1480).
Paris- White (FFr per tonne): Dec 1125, Mar 1167, May 1194, Aug 1226, Oct 1240 Dec 1255.

COCOA £/tonne

	Close	Previous	High/Low
Dec	1144	1120	1127 1107
Mar	1147	1153	1153 1140
May	1169	1176	1183 1164
Jly	1190	1198	1194 1186
Sep	1210	1217	1218 1206
Dec	1235	1238	1240 1230
Mar	1259	1265	1267 1256

Turnover: 3548 (3829) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for November 2: 1440.78 (1453.82). 10 day average for November 3: 1468.27 (1467.43).

US MARKETS

Local selling in precious metals touched off sell-stops to drive prices even lower, reports Drexel Burnham Lambert. Short-covering and trade buying emerged to rally prices back. The decline was best illustrated in the gold where sigificant support at $464.00, basis December, was penetrated, but the market failed to push lower as good buying emerged. Copper fell on commission house selling before rallying back on overseas buying. Crude oil was dominated by locals who initially sold the market, which touched off stops, and then covered their short positions. Cocoa fell on arbitrage and commission house selling in the face of trade buying. Sugar fell on commission house selling after earlier trade buying evaporated. Strong scale-down buying was noted towards the end of the day. Coffee fell on commission house selling and local long-liquidation. Cotton fell on a combination of commission house and trade selling. The meats tended to close higher across the board as short-covering rallied prices after earlier follow-through selling. The grains were under pressure as a result of weaker cash prices and slow export business.

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low
Nov	468.4	470.1	463.0 463.0
Dec	473.2	472.5	0 0
Jan	470.6	475.1	476.0 463.5
Feb	476.6	478.6	482.0 469.5
Apr	482.6	484.7	484.5 475.5
Jun	488.6	490.8	492.0 481.5
Aug	494.8	497.1	0 0
Sep	460.0	460.0	461.0 461.0

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low
Nov	152.75	150.55	152.00 150.25
Jan	147.75	147.50	147.95 146.20
Mar	147.80	147.65	147.80 146.00
May	147.15	147.50	147.50 146.25
Jly	146.75	147.45	147.25 145.80
Nov	144.50	144.50	0 0
Jan	141.25	141.25	0 0
Mar	141.25	141.25	0 0

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low
Dec	1819	1832	1824 1807
Mar	1850	1871	1854 1841
May	1880	1903	1891 1874
Jly	1913	1934	1912 1910
Sep	1940	1965	1940 1940
Dec	1978	1996	1980 1975
Mar	2005	2028	0 0

COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low
Nov	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]
Jly	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low
Nov	519.3	524.4	510.0 510.0
Dec	522.3	527.4	0 0
Jan	525.3	530.4	530.0 511.5
Apr	534.3	539.4	537.5 521.5
Jly	543.3	548.4	542.0 531.4
Oct	552.3	557.4	556.0 543.0
Jan	561.8	566.9	0 0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low
Nov	680.2	692.5	689.0 669.0
Dec	684.0	698.5	697.5 667.0
Jan	688.1	700.8	690.0 680.0
Mar	698.5	711.1	713.0 683.0
May	707.9	720.6	720.0 697.0
Jly	717.4	730.5	730.0 708.0
Sep	727.3	740.9	735.0 710.0
Dec	743.0	757.3	752.0 734.0
Jan	748.2	898.4	0 0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low
Jan	6.93	7.05	7.01 6.85
Mar	7.44	7.53	7.57 7.42
May	7.55	7.63	7.66 7.50
Jly	7.58	7.69	7.70 7.57
Oct	7.65	7.73	7.77 7.63
Jan	7.85	7.93	0 0
Mar	8.03	8.06	0 0

COTTON 50,000; cents/lbs

	Close	Previous	High/Low
Dec	66.65	68.32	67.80 66.32
Mar	68.10	69.65	69.15 67.80
May	68.98	70.45	69.96 68.70
Jly	68.75	70.50	69.73 68.70
Oct	65.62	66.20	65.70 65.25
Dec	64.30	65.10	64.52 64.00
Mar	65.42	66.45	66.00 65.60

CRUDE OIL (Light) 42,000 US galls $/barrel

	Close	Previous	High/Low
Dec	19.47	19.62	19.50 19.38
Jan	19.35	19.51	19.39 19.27
Feb	19.28	19.41	19.29 19.18
Mar	19.18	19.38	19.22 19.11
Apr	19.13	19.26	19.15 19.10
May	19.06	19.19	19.08 19.06
Jun	19.00	19.12	19.03 19.00
Jly	18.90	19.06	18.95 18.95
Aug	18.91	19.01	18.91 18.91
Sep	18.85	18.96	18.90 18.86

HEATING OIL 42,000 US galls, cents/US galls

	Close	Previous	High/Low
Dec	56.20	56.57	56.30 56.00
Jan	56.00	56.37	56.20 55.85
Feb	55.35	55.67	55.55 55.30
Mar	53.45	53.65	53.60 53.40
Apr	51.80	51.75	51.80 51.65
May	50.50	50.40	50.80 50.40
Jun	49.90	49.80	49.90 49.90
Jly	49.90	49.85	49.90 49.90

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low
Dec	177.4	180.3	179.5 176.8
Jan	171.3	173.4	172.5 170.7
Mar	167.1	168.4	168.0 166.4
May	165.1	165.2	165.2 163.3
Jly	162.5	162.7	163.0 161.6
Aug	162.7	162.0	163.0 161.5
Sep	160.8	161.0	162.0 160.5
Oct	160.5	160.4	161.0 159.5
Dec	160.5	160.5	160.5 159.5

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low
Dec	282/2	288/2	288/0 280/6
Mar	295/0	300/4	298/6 293/4
May	295/0	300/4	299/0 293/0
Jly	281/0	286/4	284/4 280/0
Sep	285/0	290/0	286/0 285/0
Dec	295/0	299/4	299/0 295/0

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High/Low
Dec	41.80	42.97	42.55 41.55
Feb	40.87	41.65	41.45 40.65
Apr	38.15	38.80	38.77 38.10
Jun	41.57	41.82	41.75 41.35
Jly	41.87	42.00	42.05 41.70
Aug	40.75	41.20	41.05 40.72
Oct	38.30	0	38.40 38.12
Dec	38.50	39.40	39.00 38.50

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low
Dec	175/6	178/2	177/6 175/0
Mar	180/4	183/4	183/0 180/2
May	186/0	189/2	188/6 185/6
Jly	190/2	193/6	193/0 190/2
Aug	189/4	193/0	193/4 189/4
Oct	190/0	192/0	192/0 189/6
Dec	197/0	199/0	199/0 197/0

PORK BELLIES 38,000 lbs; cents/lb.

	Close	Previous	High/Low
Feb	54.50	53.80	54.70 53.45
Mar	54.52	53.80	54.60 53.40
May	55.40	55.17	55.50 54.50
Jly	55.60	55.15	55.60 55.07

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low
Nov	525/2	530/4	530/0 523/6
Jan	532/6	536/0	536/4 531/4
Mar	538/4	542/4	542/0 536/4
May	540/6	544/0	544/4 538/4
Jly	541/2	545/6	545/4 540/0
Aug	538/0	543/0	544/0 538/0
Sep	534/0	538/0	537/4 534/0
Nov	533/2	536/6	537/6 533/0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low
Dec	62.07	60.90	62.10 60.80
Feb	59.67	58.95	59.75 58.30
Apr	61.70	61.02	61.75 60.75
Jun	61.72	61.02	61.75 60.80
Aug	60.65	59.65	60.70 59.75
Oct	59.40	58.70	59.50 58.75
Dec	60.80	60.25	61.00 0

Chicago

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low
Dec	17.14	17.20	17.32 17.10
Jan	17.31	17.38	17.50 17.30
Mar	17.62	17.69	17.81 17.61
May	17.88	17.95	18.08 17.88
Jly	18.16	18.18	18.25 18.08
Aug	18.15	18.25	18.30 18.13
Sep	18.20	18.21	18.35
Oct	18.25	18.25	18.35 18.25
Dec	18.55	18.60	18.50 18.60

CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar up after record low

THE DOLLAR staged a recovery in currency markets yesterday,having touched record lows during the morning. There was no fundamental change in sentiment but there was uncertainty about how much progress was being made towards agreeing a reduction in the US budget.

The dollar subsequently finished above levels prevailing on Monday night but during the morning it fell to its lowest ever fixing level in Frankfurt to DM1.7050. In open trading it touched DM1.6995 equal to its lowest level ever, touched in January 1980.

It closed at DM1.7150 which was up from Monday's close of DM1.7120 and Y137.35 compared with Y137.05. Elsewhere it was lower at SFr1.4130 from SFr1.4150 but rose against the French franc to FFr5.83 from FFr5.8050. On Bank of England figures, the dollar's exchange rate index rose from 98.0 to 98.1.

STERLING-Trading range against the dollar in 1987 is 1.7390 to 1.4710. October average 1.6620. Exchange rate index 74.9 against 74.8 at the opening and 74.6 on Monday. The six months ago figure was 73.3.

Sterling finished below its best level as the dollar recovered towards the close. It was still up on the day however and the Autumn statement by Mr Nigel Lawson, UK Chancellor of the Exchequer, which included a £1bn PSBR for this year and a 4p.c. growth rate, provided underlying support.Traders were looking for further inspiration from tonight's speech by the Chancellor at the Mansion House.

The pound rose to $1.7415 against the dollar from $1.7390 and DM2.9875 from DM2.9775. It was also higher in terms of the yen at Y239.25 from Y238.25 but was unchanged against the Swiss franc at SFr2.4600. Against the French franc it closed at FFr10.1525 compared with FFr10.0950.

D-MARK-Trading range against the dollar in 1987 is 1.9305 to 1.7120. October average 1.8011. Exchange rate index 150.0 against 147.2 six months ago.

The D-Mark rose to a record fixing level against the dollar in Frankfurt. Confidence that the West German administration would not flinch from increasing interest rates to control domestic money supply together with a general lack of confidence in the US authorities meant that funds continued to move in the D-Mark.

The dollar fell to DM1.7050 at the fixing, down from DM1.7204 on Monday and the Bundesbank bought DM25.8m at the fixing. However there was little sign of any open market intervention.

While there was some hesitancy from going short on fears of central bank intervention, it became clear from earlier comments by Mr Karl Otto Poehl, president of the Bundesbank, that the extent that central banks could influence rates through intervention was limited.

Additional strain was placed on the US unit after news that the Bundesbank would not be offering a fresh sale and repurchase facility to replace a maturing agreement of DM7.3bn. The Bank pointed out that over DM8bn had entered the market through dollar intervention in the past week but the absence of a fresh tender and accompanying hopes of a small rate reduction provided a psychological blow from which the dollar never recovered until the afternoon.

However there was a good deal of nervousness as the dollar approached the DM1.70 level. Some traders thought that central banks would attempt to stop the dollar from falling below this level, broken briefly in 1980, while others remained convinced that the US unit still had some way to fall.

£ IN NEW YORK

Nov.3	Latest	Previous Close
£ Spot	1.7480-1.7490	1.7395-1.7405
1 month	0.32-0.30pm	0.32-0.30pm
3 months	0.68-0.64pm	0.66-0.63pm
12 months	1.85-1.75pm	1.78-1.70pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Nov.3	Previous
8.30 am	74.8	74.6
9.00 am	74.8	74.6
10.00 am	74.8	74.6
11.00 am	74.8	74.6
Noon	75.0	74.6
1.00 pm	75.0	74.6
2.00 pm	75.0	74.6
3.00 pm	75.1	74.6
4.00 pm	74.9	74.6

CURRENCY RATES

Nov.3	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	0.76566	0.691833
U.S Dollar	6	1.3376	1.21105
Canadian $	8.75	*	1.59580
Austrian Sch.	4	16.0606	14.5072
Belgian Franc	7¾	47.7557	43.1226
Danish Krone	7	8.82950	7.96752
Deutsche Mark	3	2.2806	2.05940
Neth.Guilder	4¼	2.56685	2.31759
French Franc	9½	7.7701	7.02047
Italian Lira	12	—	1525.02
Japanese Yen	2½	—	164.885
Norway Krone	8	8.66364	7.82159
Spanish Peseta	—	152.286	137.636
Swedish Krona	7½	8.20751	7.41286
Swiss Franc	3.5	1.88200	1.70032
Greek Drach.	20½	178.516	161.821
Irish Punt	—	—	0.775819

*C$/SDR rate for Nov.3: 1.74810

CURRENCY MOVEMENTS

Nov.3	Bank of England Index	Morgan Guaranty Changes %
Sterling	74.9	-18.8
U.S Dollar	98.1	-8.8
Canadian Dollar	77.2	-10.8
Austrian Schilling	141.1	+10.7
Belgian Franc	100.9	-4.5
Danish Krone	95.2	+2.0
Deutsche Mark	150.0	+23.3
Swiss Franc	178.4	+24.8
Guilder	138.3	-15.6
French Franc	71.7	-13.7
Lira	[illegible]	[illegible]
Yen	[illegible]	[illegible]

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1975=100).

OTHER CURRENCIES

Nov.3	£	$
Argentina	[illegible]	[illegible]
Australia	[illegible]	[illegible]
Brazil	[illegible]	[illegible]
Finland	[illegible]	[illegible]
Greece	[illegible]	[illegible]
Hong Kong	[illegible]	[illegible]
Iran	119.20*	70.20*
Korea(Sth)	1386.75-1399.30	797.30-803.90
Kuwait	0.48390-0.48400	0.27615-0.27625
Luxembourg	62.40-62.50	35.80-35.90
Malaysia	4.3820-4.3940	2.5045-2.5055
Mexico	2877.10-2880.50	1645.00-1646.00
N. Zealand	2.8950-2.9025	1.6555-1.6580
Saudi Ar.	6.5660-6.5720	3.7500-3.7510
Singapore	3.6025-3.6100	2.0580-2.0590
S. Af (Cm)	3.4580-3.4735	1.9800-1.9840
S. Af (Fn)	5.9395-6.1480	3.3900-3.5090
Taiwan	52.00-52.25	29.90-30.00
U.A.E.	6.4305-6.4360	3.6725-3.6735

*Selling rate

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Nov 3	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.1226	+1.56	+0.79	±1.5344
Danish Krone	7.85212	7.96752	+1.47	+0.70	±1.6404
German D-Mark	2.05853	2.05940	+0.04	-0.73	±1.0982
French Franc	6.90403	7.02047	+1.69	+0.92	±1.3674
Dutch Guilder	2.31943	2.31759	-0.08	-0.85	±1.5012
Irish Punt	0.768411	0.775819	+0.96	+0.19	±1.6684
Italian Lira	1483.58	1525.02	+2.79	+2.47	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency Adjustment calculated by Financial Times.

POUND SPOT- FORWARD AGAINST THE POUND

Nov.3	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.7335-1.7535	1.7410-1.7420	0.35-0.32cpm	2.31	0.63-0.58pm	1.39
Canada	2.2861-2.3118	2.3030-2.3040	0.15-0.05cpm	0.52	0.23-0.10pm	0.29
Netherlands	3.34½-3.38	3.37-3.38	[illegible]	4.44	[illegible]	3.85
Belgium	62.25-62.50	62.40-62.50	[illegible]	4.90	[illegible]	1.99
Denmark	11.48-11.54¾	11.53¾-11.54¾	[illegible]	-0.91	[illegible]	-1.36
Ireland	1.1165-1.1255	1.1220-1.1230	0.04dis-0.04pm		0.05dis-0.21pm	0.29
W. Germany	2.97-2.99¾	2.98¾-2.99¾	[illegible]	6.03	4-3⅞pm	5.10
Portugal	240.33-242.80	241.80-242.80	40-95cdis	-3.34	205-300dis	-4.17
Spain	198.65-199.39	198.65-198.95	143-230cdis	-11.20	378-443dis	-7.66
Italy	[illegible]	[illegible]	6-9liredis	-4.08	19-22dis	-3.72
Norway	[illegible]	[illegible]	[illegible]	-4.78	[illegible]	-5.20
France	[illegible]	[illegible]	[illegible]	-0.07	[illegible]	-0.69
Sweden	[illegible]	[illegible]	[illegible]	-0.14	[illegible]	-0.65
Japan	[illegible]	[illegible]	[illegible]	5.64	[illegible]	4.70
Austria	20.89-21.02	20.89-20.92	[illegible]	4.81	[illegible]	1.20
Switzerland	2.45½-2.46½	2.45½-2.46½	[illegible]	7.01	[illegible]	5.69

Belgian rate is convertible francs. Financial franc 62.70-62.80. Six-month forward dollar 1.10-1.05cpm 12 month 1.65-1.55cpm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

Nov.3	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.7335-1.7535	1.7410-1.7420	0.35-0.32cpm	2.31	0.63-0.58pm	1.39
Ireland†	1.5442-1.5601	1.5460-1.5470	0.20-0.15cpm	1.35	0.50-0.40pm	1.16
Canada	1.3148-1.3255	1.3220-1.3230	0.10-0.13cdis	-0.99	0.22-0.25dis	-0.71
Netherlands	1.9125-1.9375	1.9370-1.9380	0.36-0.33cpm	2.06	1.20-1.15pm	2.45
Belgium	35.60-35.94	35.80-35.90	1dis-par	-0.17	1dis-par	-0.06
Denmark	6.5775-6.6250	6.6250-6.6300	1.00-1.70oredis	-2.46	3.40-4.10dis	-2.27
W. Germany	1.6995-1.7220	1.7145-1.7155	0.53-0.50pfpm	3.63	1.60-1.55pm	3.70
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc [illegible].

EURO-CURRENCY INTEREST RATES

Nov.3	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D. Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sw. Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Deutschmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fr. Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B. Fr. (Fin)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B. Fr. (Con)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D. Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian Sing.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Long term Eurodollars: [illegible]

EXCHANGE CROSS RATES

Nov.3	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
$	0.574	1.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DM	0.335	0.583	1.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
YEN	4.180	7.279	12.49	1000.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
F Fr.	0.985	1.715	2.943	235.7	10.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
S Fr.	0.407	0.708	1.214	97.26	4.127	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
H Fl.	0.296	0.516	0.885	70.89	3.008	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Lira	0.453	0.789	1.354	108.5	4.602	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
C $	0.434	0.756	1.297	103.9	4.407	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B Fr.	1.601	2.789	4.784	383.1	16.26	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES

Gilts and bonds firmer

Interest rate futures were firm on the London International Financial Futures Exchange yesterday. After a steady start of 121-01 for December delivery long term gilt futures showed steady improvement on the back of the strong pound against the dollar.

The announcement that Britiain's official reserves rose a record $6.7bn in October came as quite a shock to the market, which was looking for a rise of around $1.5bn to $2.5bn.

This suggested that Bank of England intervention to prevent sterling rising on the foreign exchanges had been much heavier than expected.

Dealers said the initial reaction was to buy short sterling futures and sell long term gilts, on suggestions that the October money supply figures will be boosted by the Bank of England's action, but that the strength of the pound will still force the authorities to endorse a cut in UK bank base rates.

December gilt futures touched a low of 120-21, but found renewed support from a weakening of confidence in the equity market, and an initially favourable reaction to Mr Nigel Lawson, the Chancellor's, Autumn Statement.

His forecast that the Public Sector Borrowing Requirement for the current financial year will be only £1bn boosted confidence, although there was some disappointment that he failed to pave the way for an early cut in base rates.

December gilt futures rose to a peak of 122-13, but then fell back on profit taking, and an improvement in US bonds, to close at 121-21, compared with 120-23 on Monday.

December US Treasury bond futures opened slightly higher at 86-30 on Liffe, and rose on rumours that President Reagan was about to agree with Congress on ways of producing a sharp cut in the US budget deficit.

The contract touched 87-20, before closing at 87-10, against the previous settlement of 86-25.

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls-Last Dec	Calls-Last Mar	Puts-Last Dec	Puts-Last Mar
106	15.42	15.41	0.00	0.05
108	13.42	13.45	0.00	0.09
110	11.42	11.53	0.00	0.17
112	9.43	10.02	0.01	0.30
114	7.44	8.22	0.02	0.50
116	5.48	6.50	0.06	1.14
118	3.62	5.25	0.20	1.53
120	2.30	4.09	0.52	2.37

Estimated volume total, Calls 3708 Puts 1913
Previous day's open int: Calls 34822 Puts 29556

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls-Last Dec	Calls-Last Mar	Puts-Last Dec	Puts-Last Mar
70	17.20	16.26	0.00	0.04
72	15.20	14.30	0.00	0.08
74	13.20	12.37	0.00	0.15
76	11.20	10.48	0.00	0.26
78	9.22	9.02	0.02	0.44
80	7.26	7.29	0.06	1.07
82	5.36	6.01	0.16	1.43
84	3.54	4.48	0.34	2.26

Estimated volume total, Calls 32 Puts 67
Previous day's open int: Calls 2579 Puts 2102

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

Strike Price	Calls-Last Nov	Calls-Last Dec	Puts-Last Nov	Puts-Last Dec
17000	3.83	7.32	9.53	13.02
17250	3.05	6.42	11.25	14.62
17500	2.39	5.60	13.09	16.30
17750	1.86	4.87	15.06	18.07
18000	1.43	4.22	17.13	19.92
18250	1.08	3.64	19.28	21.84
18500	0.81	3.13	21.51	23.83
18750	0.60	2.68	23.80	25.88

Estimated volume total, Calls 20 Puts 12
Previous day's open int: Calls 64 Puts 168

LIFFE £/$ OPTIONS
£25,000 (cents per £1)

[illegible]

LIFFE SE £/$ OPTIONS
£12,500 (cents per £1)

[illegible]

PHILADELPHIA SE £/$ OPTIONS
£12,500 (cents per £1)

[illegible]

LIFFE-EURODOLLAR OPTIONS

[illegible]

LONDON

20-YEAR 12% NOTIONAL GILT — [illegible]

6% NOTIONAL LONG TERM JAPANESE GOVT. BOND — [illegible]

THREE MONTH STERLING — [illegible]

FT-SE 100 INDEX — [illegible]

THREE MONTH EURODOLLAR — [illegible]

US TREASURY BONDS 8% — [illegible]

CURRENCY FUTURES

POUND-$ (FOREIGN EXCHANGE) — [illegible]

IMM-STERLING — [illegible]

LIFFE-STERLING — [illegible]

CHICAGO

U.S. TREASURY BONDS (CBT) 8% — [illegible]

U.S. TREASURY BILLS (IMM) — [illegible]

JAPANESE YEN (IMM) — [illegible]

DEUTSCHE MARK (IMM) — [illegible]

THREE-MONTH EURODOLLAR (IMM) — [illegible]

SWISS FRANC (IMM)
SFr 125,000 $ per SFr

	Close	High	Low	Prev.
Dec	0.7156	0.7165	0.7148	0.7115
Mar	0.7230	0.7257	0.7220	0.7186
Jun	0.7307	0.7320	0.7305	0.7258
Sep	0.7380	0.7380	0.7380	0.7330

STANDARD & POORS 500 INDEX
$500 times index

	Latest	High	Low	Prev.
Dec	251.19	255.74	251.19	257.75
Mar	252.20	259.50	250.50	259.10
Jun	253.60	254.50	251.70	261.20
Sep	0	0	258.30	265.10

MONEY MARKETS

London rates fall

INTEREST RATES declined on the London money market yesterday afternoon, as dealers reacted favourably to the UK Chancellor's Autumn Statement. In an immediate reaction three-month interbank fell to 9¼-9⅛ p.c., but then bounced back to 9¼-9⅛ p.c., compared with 9⅜-9¼ p.c. on Monday.

The strength of sterling had already renewed hopes of a cut in bank base rates, making discount houses reluctant to sell bills to the authorities at the existing intervention rate.

UK clearing bank base lending rate 9½ per cent from October 26.

The Bank of England initially forecast a money market shortage of £200m, but revised this to £300m at noon, and provided total help of £190m.

The authorities did not operate in the market before lunch. In the afternoon the Bank of England bought £90m bills, by way of £60m local authority bills in band 1 at 9⅜ p.c. and £30m bank bills in band 1 at 9⅜ p.c. Late assistance of around £100m was also provided.

Bills maturing in official hands, repayment of late assistance, and a take up of Treasury bills drained £282m, with Exchequer transactions absorbing £90m. These outweighed a fall in the note circulation adding £35m to liquidity and bank balances above target of £135m.

In Frankfurt the West German Bundesbank showed no sign of easing its credit policy, in spite of recent criticism from abroad, and the potential problem for the European Monetary System of the rise in the D-Mark's value.

The German currency remained very strong yesterday, as the dollar was fixed at a record low in Frankfurt.

The Bank of France sold D-Marks as the D-Mark was fixed at a record high against the French franc in Paris and the Belgian National Bank sold D-Marks against the Belgian franc in Brussels.

In Milan the D-Mark was fixed at a record high against the lira, prompting intervention by the Bank of Italy.

A securities repurchase agreement of DM7.3bn expires today, but the Bundesbank surprised the domestic money market by deciding not to hold a replacement tender.

The Bundesbank said that intervention last week by central banks to support the dollar totalled more than DM8bn and this would supply more than enough liquidity for the banking system. Through intervention the authorities took in dollars and pushed D-Marks out into the open market.

Call money rose nervously on the news to 3.80 p.c. from 3.65 p.c.

FT LONDON INTERBANK FIXING

(11.00 a.m. Nov.3) 3 months US dollars — bid [illegible] offer [illegible]; 6 months US Dollars — bid [illegible] offer [illegible]

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (Lunchtime)

Prime rate	[illegible]	One month	[illegible]
Broker loan rate	[illegible]	Two month	[illegible]
Fed.funds	[illegible]	Three month	[illegible]
Fed.funds at intervention	[illegible]	Six month	[illegible]
		One year	[illegible]

Treasury Bills and Bonds: Two year [illegible], Three year [illegible], Four year [illegible], Five year [illegible], Seven year [illegible], 10-year [illegible], 30-year [illegible]

Nov.3	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Paris	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Zurich	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Amsterdam	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tokyo	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Milan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brussels	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dublin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON MONEY RATES

Nov.3	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Local Authority Deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Local Authority Bonds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Mkt Deps	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Company Deposits	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Finance House Deposits	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills (Buy)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bank Bills (Buy)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fine Trade Bills (Buy)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dollar CDs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SDR Linked Deposits	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ECU Linked Deposits	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Treasury Bills (sell): [illegible]

WORLD MARKETS

FT-ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	TUESDAY NOVEMBER 3 1987					MONDAY NOVEMBER 2 1987			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1987 High	1987 Low	Year ago (approx)
Australia (90)	100.94	−1.2	85.93	100.23	3.98	102.12	87.07	100.15	180.81	97.40	91.12
Austria (16)	96.65	+0.5	82.28	85.75	2.41	96.16	81.98	85.90	102.87	85.53	92.33
Belgium (48)	102.77	+0.1	87.49	91.37	5.18	102.72	87.57	91.57	134.89	96.19	89.81
Canada (128)	104.01	−2.9	88.55	99.60	3.02	107.11	91.32	101.96	141.78	98.15	99.50
Denmark (38)	108.03	−0.9	91.97	97.38	3.04	108.97	92.90	98.11	124.83	98.18	94.79
France (121)	86.34	−1.5	73.50	78.96	3.48	87.68	74.75	79.84	121.82	79.10	92.63
West Germany (93)	81.22	−1.4	69.15	72.42	2.63	82.38	70.23	73.32	104.93	77.58	92.29
Hong Kong (46)	83.52	−1.3	71.10	83.76	5.77	84.63	72.15	84.86	158.68	83.52	87.97
Ireland (14)	108.03	−4.1	91.97	98.43	4.60	112.60	95.99	102.09	160.22	99.50	85.91
Italy (95)	77.84	−1.6	66.27	73.65	2.60	79.10	67.44	74.52	112.11	76.66	100.80
Japan (458)	138.82	−0.2	118.18	120.53	0.57	139.13	118.61	120.53	161.28	100.00	86.25
Malaysia (36)	112.58	+0.8	95.84	108.61	3.35	111.64	95.18	107.86	193.64	98.24	105.58
Mexico (14)	241.26	+0.0	205.39	434.05	0.69	241.18	205.62	434.05	422.59	99.72	84.48
Netherland (37)	96.05	−3.3	81.77	84.94	5.30	99.36	84.71	87.39	131.41	94.77	93.53
New Zealand (23)	85.05	−1.7	72.41	74.82	3.98	86.52	73.76	76.58	138.99	83.93	89.11
Norway (24)	126.59	−1.6	107.77	111.47	2.44	128.68	109.71	113.62	185.01	100.00	101.82
Singapore (27)	102.56	+0.8	87.31	97.29	2.45	101.71	86.71	96.81	174.28	90.19	105.71
South Africa (61)	129.56	−1.7	110.30	97.69	4.22	131.87	112.42	101.17	198.09	100.00	95.37
Spain (43)	131.04	+0.1	111.56	113.52	3.56	130.87	111.57	113.57	168.81	100.00	88.50
Sweden (34)	103.33	−2.5	87.97	94.15	2.44	106.00	90.37	96.43	136.64	90.85	102.48
Switzerland (53)	84.46	−2.9	71.90	73.99	2.25	86.94	74.12	76.27	111.11	80.90	90.87
United Kingdom (333)	118.12	−3.6	100.55	100.55	4.53	122.55	104.48	104.48	162.87	99.65	93.37
USA (583)	102.30	−1.9	87.09	102.30	3.58	104.29	88.91	104.29	137.42	92.83	102.42
Europe (949)	99.59	−2.6	84.79	87.41	3.82	102.21	87.14	89.66	130.02	97.63	93.59
Pacific Basin (680)	135.36	−0.3	115.24	118.49	0.77	135.72	115.71	118.52	158.77	100.00	86.59
Euro–Pacific (1629)	121.09	−1.0	103.08	106.08	1.78	122.35	104.31	107.00	143.65	100.00	89.36
North America (711)	102.39	−2.0	87.17	102.17	3.55	104.44	89.04	104.18	137.55	93.20	102.26
Europe Ex. UK (616)	88.11	−1.6	75.02	79.33	3.23	89.59	76.38	80.49	111.97	84.82	93.75
Pacific Ex. Japan (222)	93.56	−1.1	79.66	92.10	4.43	94.59	80.65	92.55	164.03	91.55	90.87
World Ex. US (1832)	120.66	−1.1	102.72	105.97	1.85	122.00	104.01	106.97	143.38	100.00	89.78
World Ex. UK (2082)	113.11	−1.1	96.29	105.26	2.23	114.42	97.55	106.33	138.82	100.00	94.84
World Ex. So. Af. (2354)	113.43	−1.4	96.56	104.78	2.43	115.02	98.06	106.12	139.47	100.00	94.69
World Ex. Japan (1957)	101.43	−2.1	86.35	96.72	3.68	103.64	88.36	98.79	134.22	96.44	98.76
The World Index (2415)	113.53	−1.4	96.65	104.76	2.45	115.12	98.15	106.11	139.73	100.00	94.70

Base values: Dec 31, 1986 = 100

Mexican and Japanese markets closed for public holidays on November 2 and 3 respectively.
New York market closed at 14:30 hrs local time November 3.

EUROPEAN OPTIONS EXCHANGE

Series		Nov 87 Vol.	Last	Feb 88 Vol.	Last	May 88 Vol.	Last	Stock
GOLD C	$420	29	46A	—	—	18	66	$464
GOLD C	$460	60	13.50	—	—	—	—	"
GOLD C	$480	78	4	82	20	—	—	"
GOLD C	$500	186	2	83	13.50B	—	—	"
GOLD C	$520	—	—	37	8.50B	30	17.50	"
GOLD P	$400	—	—	123	3	—	—	"
GOLD P	$420	—	—	45	6	115	7	"
GOLD P	$440	47	2.50	60	12.50	—	—	"
GOLD P	$460	166	7B	215	17.50B	—	—	"
GOLD P	$480	17	19B	—	—	60	29	"
		Nov. 87		Dec. 87		Jan. 88		
$/Fl C	Fl.190	35	3	245	4.30	—	—	Fl.192
$/Fl C	Fl.195	533	1.60	228	2.50	59	2.80	"
$/Fl C	Fl.200	—	—	24	1.30	60	1.60	"
$/Fl P	Fl.185	2049	1	128	2.50	78	3.10	"
$/Fl P	Fl.190	360	2.30	625	4.10	254	4.80	"
$/Fl P	Fl.195	100	4.65	271	6.10	37	7.60	"
$/Fl P	Fl.200	69	8.80	240	10	27	10.50	"
$/Fl P	Fl.205	159	13.80A	382	14.90	—	—	"
$/Fl P	Fl.210	35	19	76	19.20	—	—	"
		Mar. 88		June 88		Sept. 88		
$/Fl C	Fl.195	120	4.50	75	5.10	—	—	Fl.192
$/Fl C	Fl.200	19	2.80	17	3.50	—	—	"
$/Fl C	Fl.210	100	0.90	100	1.20	—	—	"
$/Fl P	Fl.190	49	6.50	25	8.30	—	—	"
$/Fl P	Fl.195	30	9.20A	17	11	—	—	"
$/Fl P	Fl.210	75	21.45	—	—	—	—	"
		Jan. 88		Apr. 88		Jul. 88		
ABN C	Fl.52	303	0.20	—	—	—	—	Fl.37.30
ABN P	Fl.46	310	10.50	230	10.50	—	—	"
AEGON C	Fl.100	29	0.40	—	—	—	—	Fl.56
AEGON P	Fl.80	6	25	37	26	—	—	"
AHOLD C	Fl.75	78	3A	10	3.50	—	—	Fl.62.50
AKZO C	Fl.110	1120	5.50	42	10.90	38	11	Fl.99
AKZO P	Fl.100	810	11B	25	12B	15	15	"
AMEV C	Fl.45	29	1.80	—	—	—	—	Fl.39.10
AMEV P	Fl.40	166	2	38	2.70	—	—	"
AMRO C	Fl.95	64	0.20	—	—	—	—	Fl.61
AMRO P	Fl.85	101	25.50	8	24.50B	—	—	"
ELSEVIER C	Fl.50	25	1.10	130	1.80	6	3.30	Fl.39
ELSEVIER P	Fl.35	151	3	—	—	—	—	"
GIST-BROC. C	Fl.35	154	2.90	—	—	5	5.70	Fl.33.30
GIST-BROC. P	Fl.45	81	12.30	1	12.50	—	—	"
HEINEKEN C	Fl.140	121	6.50B	1	11	—	—	Fl.126
HEINEKEN P	Fl.170	78	47	53	43B	2	48A	"
HOOGOVENS C	Fl.50	58	0.30	216	1.20	—	—	Fl.31.50
HOOGOVENS P	Fl.30	37	2.50	—	—	—	—	"
KLM C	Fl.45	190	1.10	4	2.10	—	—	Fl.33.80
KLM P	Fl.55	162	23	30	22.50	—	—	"
NEDLLOYD C	Fl.170	42	4.50	—	—	—	—	Fl.128
NEDLLOYD P	Fl.120	85	6.50	21	10	—	—	"
NAT NED C	Fl.80	72	0.50	1	1	—	—	Fl.47.90
NAT NED P	Fl.75	124	29	10	28	—	—	"
PHILIPS C	Fl.40	443	1	216	1.60	82	2.50	Fl.32.50
PHILIPS P	Fl.50	686	19.50	168	19.50	4	19B	"
ROYAL DUTCH C	Fl.280	359	0.60	5	2.50	—	—	Fl.208.50
ROYAL DUTCH P	Fl.200	430	10	12	14	1	16	"
ROBECO P	Fl.85	60	8	—	—	—	—	83.70
UNILEVER C	Fl.116	325	4.40	—	—	—	—	Fl.104.50
UNILEVER P	Fl.90	493	5	10	7	2	10	"

TOTAL VOLUME IN CONTRACTS: 48,559

A=Ask B=Bid C=Call P=Put

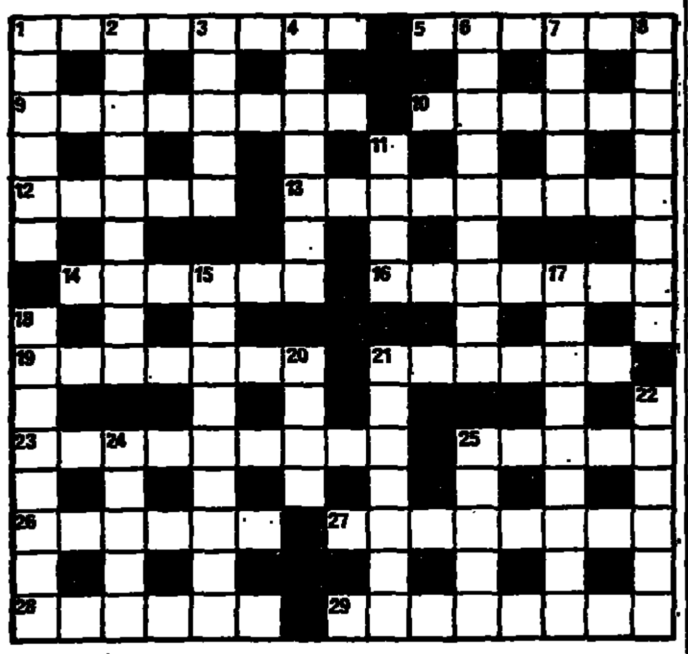
BASE LENDING RATES

	%		%		%
ABN Bank	9½	● Charterhouse Bank	9½	Nat Bk. of Kuwait	9½
Adam & Company	9½	Citibank NA	9½	NatWestminster	9½
Allied Arab Bk Ltd	9½	City Merchants Bank	9½	Northern Bank Ltd	9½
Allied Dunbar & Co	9½	Clydesdale Bank	9½	Norwich Gen. Trust	9½
Allied Irish Bank	9½	Comm. Bk. N. East	9½	PK Finans. Intl (UK)	10
American Exp. Bk.	9½	Consolidated Cred	9½	Provincial Trust Ltd	11
Amro Bank	9½	Co-operative Bank ✱	9½	R. Raphael & Sons	9½
Henry Ansbacher	9½	Cyprus Popular Bk	9½	Roxburghe G'rantee	10½
ANZ Banking Group	9½	Duncan Lawrie	9½	Royal Bk of Scotland	9½
Associates Cap Corp	10	Equat'r'l TstC'p plc	9½	Royal Trust Bank	9½
Authority & Co Ltd	9½	Exeter Trust Ltd	10	Smith Williamson Secs	9½
Banco de Bilbao	9½	Financial & Gen. Sec	9½	Standard Chartered	9½
Bank Hapoalim	9½	First Nat. Fin. Corp	10½	TSB	9½
Bank Leumi (UK)	9½	First Nat. Sec. Ltd	10½	UDT Mortgage Exp	¶11.1
Bank Credit & Comm	9½	● Robert Fleming & Co	9½	United Bk of Kuwait	9½
Bank of Cyprus	9½	Robert Fraser & Ptrs	10½	United Mizrahi Bank	9½
Bank of Ireland	9½	Girobank	9½	Unity Trust PLC	9½
Bank of India	9½	Grindlays Bank	9½	Western Trust	10
Bank of Scotland	9½	● Guinness Mahon	9½	Westpac Bank. Corp	9½
Banque Belge Ltd	9½	HFC Trust & Savings	9½	Whiteaway Laidlaw	10
Barclays Bank	9½	● Hambros Bank	9½	Yorkshire Bank	9½
Benchmark Tst Ltd	9½	Heritable & Gen. Tst	9½		
Beneficial Trust Ltd	11	● Hill Samuel	§ 9½		
Berliner Bank AG	9½	C. Hoare & Co	9½		
Brit Bk of Mid East	9½	Hongkong & Shangh	9½		
● Brown Shipley	9½	Lloyds Bank	9½		
Business Mtge Tst	10	Meghraj & Sons Ltd	9½		
CL Bank Nederland	9½	Midland Bank	9½		
Central Capital	9½	● Morgan Grenfell	9½		
Cayzer Ltd	9½	Mt Credit Cpn Ltd	10		

● Members of the Accepting Houses Committee. ✱ 7-day deposits 5%. Savewise 7.66%. Top Tier—£2,500+ at 3 months' notice 9.31%. At call when £10,000+ remains deposited. ¶ Mortgage base rate. § Demand deposit 4.49%. Mortgage 11.125%.

FT CROSSWORD PUZZLE NO. 6,473

DANTE



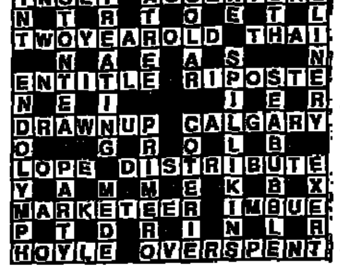
ACROSS

1 Preliminary race which is neither quick nor decisive (4, 4)
5 Tasty item on the bird-table (6)
9 The shot that comes off (8)
10 Chessman on board gives issue (6)
12 The price of a suit (5)
13 Monitor rode Vespa about (9)
14 In trouble, is repeatedly after credit (6)
16 Object when put into torn clothing (7)
19 Rock music of the quieter type (7)
21 Bird calls spoil the speech (6)
23 Means hips may be out of proportion (9)
25 A nymph puts a spell on one (5)
26 Highly bumptious? (6)
27 Not a favourite team in tour that's arranged (8)
28 Island boatman (6)
29 He may be back in the team (8)

DOWN

1 Manage to get letters of credit arranged (6)
2 These voices were heard in Xanadu (9)
3 White wines that go with joints? (5)
4 Eternal theme of the beautician (7)
6 Imperturbable admission of inertia (9)
7 Shelter for a man-of-war round the point (5)
8 Arrests drunkard in lift — or drunkards (8)
11 A parson upset enough to swear (4)
15 The revolutionary fork-lift? (9)
17 Once beaten, explained everything (9)
18 Rock layer (6)
20 Pays out, but not in silence apparently (4)
21 Many make certain you get the blame (7)
22 Maker of images (6)
24 Extra capital (5)
25 He goes round a short way in a hurry (5)

Solution to Puzzle No. 6,472



FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

	Bid Price	Offer Price	+ or −	Yield Gross
Abbey Unit Tst. Mngrs. (a) 80 Holdenhurst Rd, Bournemouth 0345 717373				
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CS Fund Managers Limited 125 High Holborn, London WC1V 6PY 01-242 1148

Canada Life Unit Trust Mngrs. Ltd 2-6 High St, Potters Bar, Herts 0707 51122

Cannon Fund Managers Ltd 1 Olympic Way, Wembley, HA9 0NB 01-902 8876

Capel (James) Mngt. Ltd PO Box 551, 6, Bevis Marks, EC3A

Capital House Unit Trust Mngrs Capital House, Festival Square, Edinburgh 031-228 4477

Abtrust Management Ltd 10 Queens Terrace, Aberdeen AB9 1QJ 0224 633070

AEtna Unit Trusts Ltd(a)(b)(c) 401 St John St, London EC1V 4QE 01-837 6494

Cent. Bd. of Fin. of Church of England 2 Fore Street, London EC2Y 5AQ

Robert Fleming & Co Ltd 25 Copthall Ave, London

Framlington Group (a) 3 London Wall Bldgs

Robert Fraser Trust Mgrs 29 Albemarle St, London

Friends Provident Unit Trust Castle Street, Salisbury, Wilts. Dealing: 0722 411411

[illegible]

FT UNIT TRUST INFORMATION SERVICE

Mercury Fund Managers Ltd —Contd.

Gilt	92.3	92.7	-1.7	7.41
(Accum Units)	109.8	110.1	-2.0	7.41
Global Fund	40.0	42.3	-0.4	0.82
(Accum Units)	40.0	42.3	-0.4	0.82
High Income Fund	42.1	44.5xd	-2.0	4.07
(Accum Units)	43.2	45.7xd	-2.1	4.07
High Interest Fund	45.5	47.9xd	-1.6	9.09
(Accum Units)	46.7	49.4xd	-1.6	9.09
Income	97.0	102.6	-6.0	3.99
(Accum Units)	112.1	118.6	-4.9	3.99
International	246.4	260.7	-2.4	2.62
(Accum Units)	308.9	326.8	-2.6	2.62
Japan	177.1	187.4	-1.6	0.88
(Accum Units)	181.9	192.4	-1.6	0.88
Pacific Fund	33.8	35.7	-1.3	0.18
(Accum Units)	33.8	35.7	-1.3	0.18
Recovery	234.1	247.7xd	-13.9	3.00
(Accum Units)	256.5	271.4xd	-15.1	3.00
UK Smaller Co's Fund	43.7	46.2	-2.6	2.02
(Accum Units)	44.1	46.6	-2.7	2.02

Merlin Fund Mngmt Ltd
30 St James St, London SW1A 1HB 01-925 1277

Merlin Oct 28	510.5	518.05	—	1.30

Metropolitan Unit Trust Mngrs Ltd
3 Darkes Lane, Potters Bar EN6 1AJ. 0707 451.86

UK Income Fund	52.3	55.6	-0.8	5.40
Accum Units	52.9	56.2	-0.8	5.34
UK Growth Fund Acc	46.3	49.2	-0.9	2.03
Global Income Fund	41.7	44.4	-0.8	4.31
Accum Units	41.7	44.4	-0.8	4.31
Global Growth Fund	37.2	39.5	-0.2	0.63

Midland Bank Group UT Mngrs. Ltd
Courtwood House, Silver St, Head, Sheffield S1 3RD
Tel: 0742 769842

Capital	96.6	102.5	-1.2	1.58
(Accum Units)	133.6	141.9	-1.6	1.58
Commodity & Gen.	140.9	149.5xd	+0.1	1.81
(Accum Units)	202.9	215.3	+0.3	1.81
European Growth	103.2	109.8	+1.3	1.27
(Accum Units)	124.6	132.2	+1.6	1.27
Extra High Inc.	65.0	69.0xd	-0.4	7.22
(Accum Units)	90.8	95.8	-0.5	7.22
Gilt & Fxd. Int.	54.8	57.3	+0.3	8.15
(Accum Units)	97.2	101.6	+0.5	8.15
High Yield	180.0	191.0xd	-2.6	5.86
(Accum Units)	324.8	344.1	-4.7	5.86
Income	193.8	205.7	-3.1	3.41
(Accum Units)	328.8	348.9	-5.3	3.41
Intl High St UT	45.0	47.9	-0.6	2.45
Do. Accum	45.0	47.9	-0.6	2.45

Provident Mutual Unit Trust Managers Ltd.
25-31 Moorgate, London, EC2R 6BA. 01-588 9963

PM Equity Growth	98.6	104.9	-0.9	1.20
PM Income and Growth	86.8	92.4	-1.9	3.57
PM N American Growth	42.4	45.1	-0.1	0.44
PM European Growth	41.2	43.8	+0.3	0.72
PM Japan Growth	61.9	65.8	+0.2	0.40
PM Overseas Growth	43.9	46.7	—	0.54

Prudential Holborn Unit Trusts Ltd(a) (b) (c)
51-69 Ilford Hill, Ilford, Essex IG1 2DL. 01-478 3377
Holborn Linkline 0800 010345

Holborn Comm Tst	59.5	63.7	-0.8	0.48
Holborn Equity Income	59.4	63.8	-1.0	4.05
Holborn Equity Tst	437.1	469.5xd	-7.5	2.87
Holborn European Tst	92.5	98.9	-0.6	0.84
Holborn High Inc Tst	75.5	80.9xd	-0.4	5.59
Holborn Intl Grth Tst	93.9	100.9	-0.5	0.86
Holborn Intl Sm Co	39.1	42.0	-0.1	0.06
Holborn Japanese Tst	117.6	126.4	+0.1	0.05
Holborn N. Amer Tst	65.4	72.2	+0.1	0.67
Holborn Premier Inc	43.2	46.7	—	7.55
Holborn Sm Cos Tst	62.2	66.8xd	-0.2	1.74
Holborn Spec Sit Tst	75.8	81.4	-1.8	1.79
Holborn UK Growth Tst	82.6	88.4	-3.1	2.12

Quilter Management Co Ltd
31-45 Gresham Street, London EC2 01-600 4177

Quadrant Gen. Fd	522.6	553.1xd	—	1.75
Quadrant Income	273.1	289.0	—	4.58
Quadrant Intl. Fund	331.2	350.5	—	1.43
Quadrant Spec. Sits.	352.0	372.5	—	1.56

Reliance Unit Mgrs. Ltd
Reliance House, Tunbridge Wells, Kent 0892 510033

British Life	182.9	194.5xd	-3.6	3.18
Reliance Unit Tst (Inc	127.7	135.7xd	-2.2	1.94
Reliance Uk Tst (Acc)	172.8	183.8	-2.9	1.94

Rowsbury Fund Managers
Silkhouse Ct., Tithebarn St., Liverpool. 051-227 2050

Internat. Growth Trust	37.6	41.0	—	—

N.M. Rothschild Fund Mngmt
St Swithin's Lane, London EC4 01-626 4356

NC America (Inc)	95.9	102.0xd	-1.1	4.94
NC America (Acc)	240.4	255.8	+1.4	0.90
NC Inc Fd	153.1	167.8	+0.6	0.52
NC Japan Fd	189.9	202.0	-1.2	1.45
NC Major UK Cos Fd	52.5	55.8	-0.9	2.44
NC Smllr Australasian	67.4	71.7	-1.3	0.82
NC Smllr Cos Fd	40.4	42.9	-0.1	1.25

INSURANCES

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

OFFSHORE AND OVERSEAS

MANAGEMENT SERVICES

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Five to Fifteen Years

Over Fifteen Years

BRITISH FUNDS—Contd

Undated

Index-Linked

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

Money Market Bank Accounts

Money Market Trust Funds

AMERICANS—Continued

1987 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
39	21⅛	Rep NY Corpn $5	24¾	—	$1.16	—	2.9
18¾	8¾	Rockwell Intl. $1	11⅞	+⅛	64c	—	3.7
30½	16¾	Sara Lee $1	22⅝xd	+⅛	$1.00	—	2.7
11⅛	8⅞	Saul (B. F.) $1	9⅝		20c	—	1.3
27½	2¼	Southwestern Bell $1	22½	–⅛	h$2.32	—	6.3
22¼	11⅛	Staley Continental	11⅞		80c	—	4.3
44⅞	21⅞	Sun Co. Inc. $1	31⅞	+⅞	$3.00	—	5.9
42¾	24	TRW Inc. $0.625	27⅛	–⅛	h$1.60	—	3.6
37¾	22⅝	Tenneco $5	25⅞xd	–⅛	$3.04	—	7.4
220	149¾	Do. 10pcLn.Stk. 91-5	150xd		10%	—	14.7
29⅝	16⅝	Texaco $6.25	19⅞xd	+½	$3.00	—	9.3
74⅞	43⅞	Time Inc. $1	46⅞xd	–⅛	$1.00	—	1.3
20⅞	11	Tracor $0.33	18xd	–⅛	40c	—	1.4
30¾	15⅞	Transamerica $1	18⅞xd	+⅛	$1.84	—	6.1
14⅞	1¼	Transworld Corp $5	796p	+16	20c	—	1.5
27⅞	12¼	TRINOVA Corp.	16⅛	+1¼	56c	—	2.1
24⅞	12⅞	♦USX $1	15⅛	+⅛	$1.20	—	4.7
19⅞	10⅞	Union Carbide $1	12⅞xd	+⅞	$1.50	—	7.3
37⅞	19⅞	Utd. Technologies	20⅞xd	+⅞	$1.40	—	4.1
38⅞	26⅛	US West	29⅛	–⅛	$3.28	—	6.8
30⅞	17⅞	Waste Management $1	21⅞	–⅛	—	—	—
31⅞	13⅞	Whirlpool $1.0	19⅞	+⅛	—	—	—
37⅛	18½	♦Woolworth $3½	19½		$1.32	—	4.2

CANADIANS

1987 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
691p	249p	AEM Gold Corp	289p	+14	—	—	—
26¼p	10p	♦Abbot Energy Corp.	19½p	+1	—	—	—
18⅛	506p	♦Amer. Barrick Res.	16⅝	+1⅛	—	—	—
136p	32p	Amer. Dalecco	34p		—	—	—
141p	6½p	American Lightwave	8½p	+½	—	—	—
122p	33p	♦Anaconda	43½p	+10½	—	—	—
117	44	Asgnico Expln.	54p	+5	—	—	—
19⅞	11½	Bk. Montreal	11½	–½	$2.00	—	8.0
10⅞	546p	Bk. Nova Scot.	578p	+19	72c	—	5.7
22⅞	15⅞	BCE	16⅛	–½	$2.40	—	6.8
10⅞	618p	♦Bow Valley	632p	+2	40c	—	2.9
20	11⅛	♦Brascan	11½	+⅛	80c	—	3.5

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS—Cont

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY AND STORES—Cont.

ELECTRICALS

ENGINEERING

ENGINEERING—Continued

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS—Continued

INDUSTRIALS—Continued

INSURANCES

LONDON SHARE SERVICE

INSURANCES—Continued

[illegible]

LEISURE

[illegible]

MOTORS

Motors and Cycles

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PAPER, PRINTING—Continued

[illegible]

PROPERTY

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TEXTILES—Cont.

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

FINANCE, LAND—Cont.

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Continued

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES—Continued

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 27 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock".
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ◆ Figures or report awaited.
- ♥ Not officially UK listed; dealings permitted under Rule 535(4)(a).
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Dealt in under Rule 535(3).
- # Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ◆ Merger bid or reorganisation in progress.
- ♣ Not comparable.
- ♠ Same interim: reduced final and/or reduced earnings indicated.
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- || No par value.

B.Fr. Belgian Francs. Fr. French Francs. ## Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1987. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	85	.....
Craig & Rose £1	680	−25
Finlay Pkg. 5p	93	−5
Holt (Jos) 25p	£12½	−¼
IoM Stm. £1	240	.....
IRISH		
Fund 11¼% 1988	£100¾	.....
Nat. 9¾% 84/89	£98¾	+¼
Fin. 13% 97/02	£109¾	.....
Arnotts	290	+37
CPI Hldgs	70	+5
Carrol Inds.	140	+10
Dublin Gas	40‡	.....
Hall (R. & H.)	140	.....
Heiton Hldgs.	58	+3
Irish Ropes	125	−40
Norish	325	+12
Unidare	350	+12

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	40
Amstrad	19
BAT	62
BOC Grp.	50
BSR	17
BTR	36
Babcock	32
Barclays	52
Beecham	52
Blue Circle	50
Boots	30
Bowaters	50
Brit Aerospace	50
Brit. Telecom	28
Burton Ord	32
Cadburys	25
Charter Cons.	45
Comm Union	34
Courtaulds	45
FNFC	32
Gen Accident	95
GEC	22
Glaxo	200
Grand Met	58
GUS 'A'	125
Guardian	95
GKN	38
Hanson Tst.	17
Hawker Sidd	58
ICI	125
Jaguar	52
Ladbroke	45
Legal & Gen	32
Lex Service	45
Lloyds Bank	35
Lucas Inds	75
Marks & Spencer	22
Midland Bk	45
Morgan Grenfell	55
NEI	13
Nat West Bk	65
P & O Dfd	65
Plessey	20
Polly Peck	34
Racal Elect	32
RHM	35
Rank Org Ord	70
Reed Intnl	50
STC	38
Sears	16
TI	37
TSB	12
Tesco	18
Thorn EMI	66
Trust Houses	25
T&N	26
Unilever	62
Vickers	20
Wellcome	42
Property	
Brit Land	30
Land Securities	50
MEPC	48
Peachey	40
Oils	
Brit Petroleum	32
Britoil	30
Burmah Oil	52
Charterhall	10
Premier	11
Shell	125
Tricentrol	11
Ultramar	26
Mines	
Cons Gold	125
Lonrho	28
Rio T Zinc	100

A selection of Options traded is given on the London Stock Exchange Report Page.

LONDON STOCK EXCHANGE

Account Dealing Dates			
*First Dealings	Option Declarations	Last Dealings	Account Day
Oct 26	Nov 5	Nov 6	Nov 16
Nov 9	Nov 19	Nov 20	Nov 30
Nov 23	Dec 3	Dec 4	Dec 14

*New time dealings may take place from 9.00am two business days earlier.

Nervous selling drives equity sectors lower while Government bonds move upwards

THE AUTUMN statement on the British economy from Mr Nigel Lawson, the Chancellor of the Exchequer, found a favourable reception on the UK bond market yesterday. Government securities closed firmly, after a good demand in the early part of the session had taken out the £600m new taplet stocks issued at the end of last week.

But the response from equities was overshadowed by hints of financial strains among leading marketmaking firms, and share prices fell away sharply in the second half of the session.

The weakness in the equity sector, which took market indices back to the lows of the current setback, contrasted with an optimistic opening on the back of Wall Street's overnight rise. The market began to slide as the US dollar turned downwards again, reviving concern that US credit policies might be tightened despite recessionary pressures.

These concerns failed to upset the UK bond market, however, and long-dated issues were 1¼ points up as the City awaited Mr Lawson's speech to the House of Commons. His forecast of a Public Sector Borrowing Requirement of £1bn this year pleased the market although prices settled back to finish a net ⅞ up on the day.

Only a gain of a full point in Index-linked Government issues appeared to show slight concern with the Chancellor's latest comments on the outlook for UK inflation.

The fixed interest sector still has its eyes fixed on this week's $23.75bn Federal financing programme in the New York market. Few squalls are likely over yesterday's short term note sale, but the auction of long dated Federals later this week will be keenly watched.

Not all bond specialists foresee a tightening of credit, however. "We don't think the Fed would tighten", said one major US house in London. "Such a move would be too pro-recessionary in the present circumstances".

The Gilt-edged sector, having now taken out the latest taplet issues, may begin to look for further supplies before the end of the week.

The setback in equities was accentuated by a bout of nerves in the marketplace. Rumours of sizeable "sell programmes" were probably exaggerated. James Capel, a major agency broking firm, said it had done no more than carry out a "normal agency" operation, involving sales of around $30m in 15 - 20 of the market's Alpha, or larger-sized stocks.

However, the final reading on the FT-SE 100 was 69.8 down at 1653.9.

Another cause for comment was the slide in the new partly-paid shares of **British Petroleum**, which ended only a few pence above the Bank of England's stated support price.

There were reports of selling of the new BP stock by foreign institutions which had taken shares aboard during the ill-fated underwriting excercise. But more unsettling were suggestions that UK institutions had been "tax-selling and repurchasing" the new shares at close to the Bank's support price.

"If I were the Inland Revenue, I would be a bit suspicious of such deals", said one market specialist.

Trading in **BP** "old" and "new" shares was considerably boosted by the inclusion of a single deal of 106m "new" shares representing the buy-back part of a "bed and breakfast" deal initiated late on Monday.

Total turnover in BP "new" was 245m shares with dealers reporting numerous other large deals, including a single sale of 9m shares at 75p. The "new" shares settled a net 5 lower at 76p. BP "old", where18m shares changed hands, llost 10 to 247p.

Talk of a "sell" programme, largely consisting of financial stocks and carried out by one of the biggest agency broking firms, weighed heavily on banks.

In the "big-four" **Barclays** and **NatWest** dropped 32 apiece to 438p and 538p respectively, while similar falls were seen in **Lloyds**, 235p, and **Midland**, 328p.

The merchant banks suffered widespread and often hefty losses.**Kleinwort Benson** - where the £143m rights issue at 450p a share closes tomorrow - slipped 9 to 438p. **SG Warburg** dropped sharply and closed a net 35 down at 310p.

Life issues fell across the board, as did composites. In brokers **Minet** dropped 27 to 325p as it was revealed that Monday's heavy buying by Kitcat & Aitken was carried out on behalf of US insurance group Corroon and Black which upped its stake in Minet from 25 per cent to 29.9 per cent, for investment purposes the US group said. **Willis Faber** came under intense pressure mid-session and dropped to 237p before closing a net 29 off at 244p amid stories that numerous additional defections from the recently acquired Stewart Wrightson group are on the cards.

Although considered to be in the category of classic defence stocks, leading Breweries such as **Bass** and **Allied-Lyons** suffered a fresh reverse. The former closed 17 down at 815p and the latter 10 lower at 328p. **Whitbread** "A" were also caught up in the weakness, losing 15 to 272p, but **Guinness** ended only 4 easier at 252p. Prospective merger candidates **Scottish & Newcastle** and **Matthew Brown** lost recent firmness after the Trade Secretary's clearance of the deal. Profit-taking brought S & N back 18 to 217p while Matthew Brown lost 12 to 660p. Elders IXL's disclosure of an 8.5 per cent shareholding made little impact on **Greene King**, which remained at the overnight level of 458p. Elsewhere, **Greenall Whitley** settled 7 cheaper at 162p and **Merrydown** stepped back 35 further to 345p.

Leading Building issues failed to consolidate on a relatively firm opening and drifted steadily easier to close at the day's lowest levels. **Blue Circle**, a shade dearer at the start, fell back to close 16 lower at 343p. **BPB Industries**, steady on Monday because of Australian stake building rumours, lost 14 to 268p. **Tarmac** turned easier and closed 22 down at 207p, while **Redland** gave up 19 at 385p. Against the trend, **RMC** found support and, in a restricted market, rose 23 to 41306p. **Magnet** held up well, closing just a penny cheaper at 182p following reports that the company had called in the police in connection with a possible fraud within the company involving 'several hundred thousand pounds'. Revived bid speculation boosted **Gibbs and Dandy** A 6 to 91p. In the Construction sector, **Costain** came under pressure and shed 30 to 205p, while losses of around 5 were marked against **Barratt Developments**, 160p, and **George Wimpey**, 169p.

ICI gave fresh ground on currency influences to close ⅜ lower at £10. Elsewhere in the Chemical sector, **Coalite** revived with a gain of 15 at 308p and **Hickson International** put on 8 at 154p. **Amersham International** remained a weak market, shedding 19 more to 386p.

The recent resilient performance of the stores sector was brought to a halt after persistent profit-taking and talk of a "sell" programme involving a number of retailing issues.

Among only a handful of firm stocks **Underwoods** rose 5 to 145p following Press comment suggesting a possible stake-building exercise in the shares.

Worries over a possible delay of the proposed Hong Kong flotation of the group's soon-to-be-merged HK subsidiaries, Hong Kong Telephone and Cable & Wireless(HK), saw **C & W** shares retreat 10 to 310p. **British Telecom**, after a turnover of over 8m shares, closed 5 down at 223p; Norman Tebbit is joining the company as a non-executive director. The acquisition of US group Sippican for around $80m upset **Plessey** shares which ran back 6 to 142p.

Engineers failed to escape the general setback, with **Hawker** outstanding for a fall of 24 at 403p in the leaders. **GKN** recorded a more modest loss of 13 at 257p. A reasonably brisk trade developed in **Rolls-Royce** (around 4.4m shares changed hands) which settled 5 lower on the day at 125p. **Camford** failed to take the recent recovery movement a stage further, closing 12 cheaper at 153p. **APV Baker** gave up 11 to 104p and **Laird** eased 10 to 201p.

Leading Foods moved steadily lower as general market uncertainties resurfaced. Market makers reported a low turnover, but this was sufficient to depress **Cadbury Schweppes** 13 pence to 216p and **Tate and Lyle** another 7 to 599p. **United Biscuits** gave up 18 at 250p, while **S. & W. Berisford**, further depressed by thoughts that Associated British Foods bid for the company may not now proceed, shed 19 more to 295p, a two-day fall of 72.

Hotels were especially weak reflecting currency influences. **Grand Metrolpolitan** fell 26 to 377p, **Ladbroke** lost 17 at 335p and **Trusthouse Forte** 18 at 181p.

Further weakness in the US dollar again took its toll on sentiment in the international stocks with quotations showing a fresh round of losses. Prices were usually a shade above the day's lowest, but the slight rally was looking rather fragile at the close. Once again, trading conditions were rather quiet. **Beecham** ended 17 cheaper at 401p, while **Glaxo** finished ¾ down at £10¾. **Hanson Trust** enjoyed a little more interest than most (some 5.8m shares changed hands) and finished a few pence cheaper on the day at 131p. **Reed International**, awaiting today's half-year figures, eased 12 to 369p in only a small volume of business. **Fisons** fell 30 to 244p and **Wellcome** eased 8 to 327p. Elsewhere, in the miscellaneous industrial sector, **Cookson**, regarded as vulnerable because of its US exposure, weakened 30 to 478p, while **Yale and Valor** dipped 24 to 210p and **Smiths Industries** gave up 12 further to 184p. **British Aerospace**, however, picked up to close above the day's worst, with a fall of 10 at 327p, after easing to around 324p. Acquisition news failed to benefit **Blue Arrow** which closed 6 cheaper at 93p, while a reasonable Press response to the half-year figures was of little assistance to **Coloroll**, down 11 at 218p. **De La Rue** ended only a shde lower at 414p in the wake of news that Bishopsgate Investment Trust has acquired a stake of approximately 8.7 per cent.

Still reflecting its heavy US exposure, **Jaguar** came back 35 more to 287p in a generally friendless Motor sector. **Rover** dipped 8 to 75p while **Lucas Industries** dropped 21 to 500p and **Dowty** 8 to 179p. Distributors suffered a similar misfortune and**Lex Service**, which also suffered US currency influences, closed37 lower at 311p. News that underwriters had been required to take up nearly 99 per cent of the shares resulting from the recent rights issue left **T.Cowie** 11 down at 115p. Few stocks resisted the weakness apart from **F.G.Gates**, up 8 at 179p.

Another sizeable acquisition, the second within twenty four hours, supported **Maxwell Communications** and the shares managed to hold the overnight level of around 234p. The scene elsewhere was less confident and **Associated Newspapers** retreated 10 more to 447p. **Norton Opax** ran into persistent small selling and dropped 18 to 121p while **Jarvis Porter** gave up 22 at 116p. Advertising Agencies also fared badly. Despite the current rating of a safety first stock, **Saatchi & Saatchi** fell 18 to 352p. Acquisition news failed to help **WPP**, down 16 at 436p, and **VPI**, 15 lower at 240p, received little assistance from yesterday's seminar for fund managers.

Properties were dull, **Land Securities** falling 17 to 433p and **MEPC** losing 10 at 408p. Elsewhere, **Peachey** attracted occasional buying interest at 330p, up 5, but **Hammerson A** shed 15 more at 428p. **Control Securities** shed 4 to 51p despite the strong first-half profits recovery and **Rosehaugh** fell 48 to 515p following the annual results. Demand ahead of tomorrow's interim results lifted **Hanover Druce** 10 to 230p.

Bat Industries, still reflecting currency fears, eased 10 to 433p.

MAI drew comfort from a Morgan Grenfell recommendation and improved a few pence before reverting to the overnight 505p. The securities house reckons " exposure to the US dollar will require some downward adjustments to profits forecasts, but the fundamentals of the group remain largely unchanged and the long-term potential looks considerable". Remaining miscellaneous Financials moved in a contrasting direction and **British & Commonwealth** settled 23 down at 320p. **Tyndall** lost 13 at 185p.

British Gas, upset by the referral to the OFT of complaints to the Gas Consumers Council, dropped a further 9 to 137p - a two day fall of 15; dealers also reported switching out of Gas and into **Britoil** where the shares edged up 3 to 212p.

The list of losses among Overseas Traders was considerable. **Harrisons & Crosfield** reacted 18 to 530p. **Inchcape** fell 27 to 550p and **Lonrho** dipped 15 to 220p.

Traded option business was relativley subdued. 28,804 contracts were transacted comprising 17,737 calls and 11,067 puts. The **FTSE** contract contributed 2,069 puts, but only 502 calls. **Marks and Spencer** attracted 1,248 calls and 279 puts.

Traditional Options

● **First dealings Nov 02● Last dealings Nov 13● Last declarations Feb 04● For Settlement Feb 15** *For rate indications see end of London Share Service*

Stocks to attract money for the call included **Astra Holdings, Central and Sheerwood, Tyndall, British Airways, Acorn Securities, Pentland Industries, Tuskar, Hanson Trust, Bryant Holdings, Allied Lyons, Associated British Engineering, Property Trust, Control Securities, Morgan Grenfell, Brittania Securities and Bat Industries.** No put or *double options* were reported.

FINANCIAL TIMES STOCK INDICES

	Nov. 3	Nov. 2	Oct. 30	Oct. 29	Oct. 28	Year Ago	1987 High	1987 Low	Since Compilation High	Since Compilation Low
Government Secs	90.14	89.76	89.87	90.14	90.14	83.02	93.32 (8/5)	83.73 (19/10)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	94.07	93.55	93.76	93.68	93.69	89.11	99.12 (15/6)	90.23 (2/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary ♥	1286.1	1342.7	1360.9	1303.4	1288.5	1294.3	1926.2 (16/7)	1286.1 (3/11)	1926.2 (16/7/87)	49.4 (26/6/40)
Gold Mines	305.6	314.9	312.1	309.9	323.8	281.2	497.5 (4/8)	288.2 (19/2)	734.7 (15/2/83)	43.5 (26/10/71)
Ord. Div.Yield	4.83	4.60	4.55	4.76	4.80	4.37				
Earnings Yld. %(full)	11.96	11.43	11.30	11.83	11.93	10.08				
P/E Ratio (net)(*)	10.23	10.70	10.82	10.34	10.26	12.13				
SEAQ Bargains (5pm)	36,789	43,020	59,138	37,681	45,378	-				
Equity Turnover (£m)	-	1162.30	1563.99	1390.19	1832.31	1153.26				
Equity Bargains	-	63,413	63,406	47,971	58,079	44,328				
Shares Traded (ml)	-	555.0	734.0	549.3	723.4	495.5				

S.E ACTIVITY

Indices	Nov.2	Oct.30
Gilt Edged Bargains	110.4	128.8
Equity Bargains	410.9	410.8
Equity Value	2349.3	3161.2
5-Day average		
Gilt Edged Bargains	135.8	147.1
Equity Bargains	398.2	417.5
Equity Value	3150.3	3284.3

♥ Opening	10 a.m.	11 a.m.	Noon	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1353.4	1349.8	1327.1	1307.3	1302.5	1292.6	1291.8	1295.6

Day's High 1353.5 Day's low 1282.9

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, S E Activity 1974, * Nil=10.08.

LONDON REPORT AND LATEST SHARE INDEX: TEL. 01-246 8026

NEW HIGHS AND LOWS FOR 1987

NEW HIGHS (8)

BRITISH FUNDS (1) Treas. 9pc. 1991 INT.BANK & O'SEAS GOVT. STLS. (1) Sweden 13½pc. Ln.2010 BUILDINGS (1) Gibbs & Dandy

NEW LOWS (154)

CANADIANS (2) BANKS (5) BREWERS (8) BUILDINGS (3) CHEMICALS (2) STORES (2) ELECTRICALS (17) ENGINEERING (4) FOODS (5) INDUSTRIALS (25) INSURANCE (2) MOTORS (3) PAPERS (6) PROPERTY (9) TEXTILES (4) TRUSTS (46) OILS (4) OVERSEAS TRADERS (2) MINES (10) THIRD MARKET (3)

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for Alpha securities dealt through the SEAQ system yesterday until 5 pm.

Stock	Volume 000's	Stock	Volume 000's	Stock	Volume 000's
ASDA-MFI	5,900	English China Clays	84	Plessey	9,000
Allied-Lyons	2,400	Enterprise Oil	671	Prudential	432
Amstrad	1,500	Fisons	2,200	Racal	2,500
Argyll Group	3,400	Gen. Accident	204	Rank Org.	405
Assoc. Brit. Foods	706	Gen. Elect	8,300	RMC	914
BAA	1,100	Glaxo	2,800	RHM	1,400
BAT	4,000	Globe Investment	399	Reckitt & Col.	227
BET	2,000	Granada	532	Redland	1,100
BICC	1,300	Grand Met	6,150	Reed Intl.	689
BOC	3,700	GUS A	369	Reuters	1,500
BPB Inds	1,100	Guardian R.E.	92	RTZ	2,000
BTR	4,100	GKN	635	Rolls-Royce	7,000
Barclays	1,800	Guinness	2,200	Rothmans	646
Bass	1,600	Hammerson	294	Rowntree	682
Beecham	1,900	Hanson Trust	6,400	Ryl Bank Scotland	1,500
Blue Arrow	3,900	Hawker Sidd	910	Royal Insurance	632
Blue Circle	592	Hillsdown Hldngs	1,400	STC	1,800
Boots	3,000	IMI	1,000	Saatchi & Saatchi	1,600
Brit. Airways	2,600	ICI	2,600	Sainsbury	4,300
Brit. Aero	1,600	Jaguar	2,000	Scott & Newcastle	2,900
Brit. & Comm.	1,000	Ladbroke	2,400	Sears	3,100
British Gas	26,000	Land Securities	1,700	Sedgwick	1,500
Britoil	5,200	Laporte	52	Shell Trans	2,200
BP	16,450	Legal & Gen.	276	Smith & Nephew	1,800
Brit. Telecom	8,500	Lloyds Bank	3,300	Standard Chart.	346
Bunzl	1,200	LASMO	368	Storehouse	2,100
Burmah Oil	529	Lonrho	693	Sun Alliance	735
Burton	4,200	Lucas	687	TSB	7,000
Cable & Wire	3,600	MEPC	738	Tarmac	1,000
Cadbury Schwps	2,100	Marks & Spencer	9,100	Tesco	2,300
Coats Viyella	1,600	Maxwell Comms.	636	Thorn EMI	1,700
Comm. Union	2,400	Metal Box	528	Trafalgar House	1,400
Cons. Gold	451	Midland Bank	1,800	T'house Forte	3,800
Cookson	204	NatWest Bank	1,900	Ultramar	229
Country & New.T	11	Next	897	Unilever	672
Courtaulds	812	Northern Foods	276	United Biscuits	1,500
Dalgety	263	Pearson	258	Wellcome	1,500
Dee Corpn	2,200	Pearl Assurance	310	Whitbread A	1,550
Dixons Group	3,200	P & O	1,500	Woolworth	2,100
		Pilkington Bros	5,500		

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	99	3	11
Corporations, Dominion and Foreign Bonds	30	2	23
Industrials	143	950	493
Financial and Properties	77	324	228
Oils	22	49	43
Plantations	1	3	10
Mines	43	80	73
Others	92	102	76
Totals	507	1513	957

FT-ACTUARIES INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

	EQUITY GROUPS & SUB-SECTIONS Figures in parentheses show number of stocks per section	Tuesday November 3 1987 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at 27%)	Est. P/E Ratio (Net)	xd adj. 1987 to date	Mon Nov 2 Index No.	Fri Oct 30 Index No.	Thu Oct 29 Index No.	Year ago (approx) Index No.
1	CAPITAL GOODS (214)	683.63	-3.4	10.31	4.15	12.18	18.27	707.46	712.80	688.43	666.03
2	Building Materials (30)	896.46	-4.0	10.36	4.10	12.03	22.91	934.14	940.04	918.44	831.48
3	Contracting, Construction (33)	1239.01	-4.0	10.23	4.06	13.07	29.46	1290.83	1301.92	1283.29	1124.82
4	Electricals (14)	1753.25	-5.6	10.33	4.97	12.63	54.41	1857.45	1864.27	1823.73	1724.49
5	Electronics (34)	1522.54	-2.3	10.61	3.31	12.28	35.33	1557.92	1547.47	1481.14	1438.25
6	Mechanical Engineering (60)	348.87	-3.6	10.46	4.60	12.02	11.01	361.75	368.08	360.70	370.27
8	Metals and Metal Forming (7)	481.83	-0.7	9.83	4.12	12.39	9.11	483.77	482.54	381.05	335.78
9	Motors (14)	247.11	-6.6	12.49	4.69	9.38	5.86	264.48	268.35	256.47	256.94
10	Other Industrial Materials (22)	1152.43	-2.3	9.04	4.50	13.15	36.48	1178.99	1191.79	1141.71	1222.48
21	CONSUMER GROUP (182)	981.61	-4.1	8.47	3.59	15.01	18.71	1023.53	1036.91	995.56	944.48
22	Brewers and Distillers (21)	914.84	-3.6	10.97	4.85	11.51	17.52	949.49	949.28	923.58	949.90
25	Food Manufacturing (23)	772.16	-3.3	9.60	4.04	13.46	16.66	798.38	819.54	784.37	713.11
26	Food Retailing (16)	2005.96	-3.5	7.37	2.94	18.08	39.67	2078.13	2086.16	2028.73	1864.43
27	Health and Household Products (10)	1686.09	-5.3	6.66	2.63	17.35	16.41	1780.98	1803.92	1714.69	1540.50
29	Leisure (30)	1038.65	-4.0	7.72	4.38	16.17	28.16	1081.47	1086.18	1027.75	943.53
31	Packaging & Paper (16)	482.97	-2.3	8.55	3.71	15.39	11.13	494.29	500.55	481.94	476.05
32	Publishing & Printing (15)	3302.57	-2.1	6.08	4.26	21.18	67.89	3375.07	3419.76	3256.04	2587.69
34	Stores (35)	836.42	-4.7	8.73	3.54	15.43	16.95	877.27	899.65	864.03	881.91
35	Textiles (16)	564.62	-7.0	11.26	4.09	10.36	12.57	606.80	601.06	584.11	599.60
40	OTHER GROUPS (87)	811.03	-2.8	10.72	4.37	11.62	20.82	834.22	844.63	807.10	787.60
41	Agencies (17)	999.99	-2.4	6.25	2.26	21.01	16.79	1024.48	1024.99	954.56	8.8
42	Chemicals (21)	964.97	-3.6	10.21	4.76	11.97	33.10	1001.50	1012.90	952.76	994.99
43	Conglomerates (13)	1065.18	-3.3	9.65	4.39	11.85	22.33	1101.73	1113.89	1057.50	240.23
45	Shipping and Transport (11)	1734.89	-2.2	9.77	4.75	13.44	51.44	1773.23	1777.49	1687.99	1553.84
47	Telephone Networks (2)	865.73	-2.4	11.71	4.67	11.39	18.98	886.77	915.57	892.77	767.91
48	Miscellaneous (23)	1129.36	-2.4	13.29	4.17	8.97	32.87	1157.32	1149.69	1103.86	1113.82
49	INDUSTRIAL GROUP (483)	866.45	-3.6	9.54	3.94	13.20	19.71	898.42	908.52	872.72	839.58
51	Oil & Gas (17)	1619.63	-3.0	10.26	6.07	12.02	65.73	1670.14	1715.44	1674.34	1408.52
59	500 SHARE INDEX (500)	930.29	-3.5	9.65	4.26	13.01	23.68	963.83	976.93	940.70	886.99
61	FINANCIAL GROUP (120)	607.95	-4.5	-	5.08	-	20.08	636.39	642.21	624.05	607.42
62	Banks (8)	592.88	-6.9	22.51	6.57	5.87	25.98	636.52	647.18	628.95	669.05
65	Insurance (Life) (8)	902.89	-3.8	-	5.18	-	32.56	938.49	940.48	910.49	828.29
66	Insurance (Composite) (7)	494.29	-4.2	-	5.69	-	17.20	505.75	512.40	494.91	467.02
67	Insurance (Brokers) (8)	832.83	-6.5	13.34	6.88	9.60	30.19	890.85	900.28	881.65	1201.71
68	Merchant Banks (12)	379.03	-2.0	-	3.49	-	8.69	386.81	388.74	387.91	342.35
69	Property (49)	899.27	-2.7	5.38	3.30	23.95	16.02	924.04	925.02	894.13	789.16
70	Other Financial (28)	397.97	-3.3	9.04	4.06	14.04	10.39	411.47	415.10	404.25	356.19
71	Investment Trusts (88)	821.42	-2.2	-	3.82	-	15.17	839.94	845.76	829.77	826.15
81	Mining Finance (2)	377.26	-6.7	12.05	4.52	9.35	10.41	404.41	422.44	403.27	332.78
91	Overseas Traders (10)	893.10	-4.4	10.24	5.46	11.44	33.95	934.45	934.04	898.50	758.48
99	ALL-SHARE INDEX (720)	844.14	-3.6	-	4.36	-	22.36	876.00	887.33	856.05	810.98

	Index No.	Day's Change	Day's High	Day's Low	Nov 2	Oct 30	Oct 29	Oct 28	Oct 27	Year ago
FT-SE 100 SHARE INDEX ♦	1653.9	-69.8	1737.0	1650.3	1723.7	1749.8	1682.8	1658.4	1703.3	1637.7

FIXED INTEREST

	PRICE INDICES	Tue Nov 3	Day's change %	Mon Nov 2	xd adj. today	xd adj. 1987 to date
	British Government					
1	5 years	123.57	+0.20	123.40	0.09	9.54
2	5-15 years	141.05	+0.54	140.29	-	12.14
3	Over 15 years	150.24	+0.74	149.14	-	12.02
4	Irredeemables	167.65	+0.09	167.49	-	13.35
5	All stocks	137.77	+0.46	137.17	0.03	11.33
	Index-Linked					
6	5 years	122.41	+0.60	121.68	-	2.18
7	Over 5 years	108.27	+1.06	107.13	-	2.89
8	All stocks	109.29	+1.01	108.19	-	2.82
9	Debentures & Loans	117.93	+0.09	117.82	-	9.47
10	Preference	84.65	+0.58	84.17	-	4.95

	AVERAGE GROSS REDEMPTION YIELDS		Tue Nov 3	Mon Nov 2	Year ago (approx.)
	British Government				
1	Low	5 years	8.65	8.69	9.74
2	Coupons	15 years	9.15	9.24	10.30
3		25 years	8.99	9.05	10.30
4	Medium	5 years	9.23	9.33	11.07
5	Coupons	15 years	9.35	9.43	10.64
6		25 years	9.20	9.27	10.38
7	High	5 years	9.30	9.39	11.15
8	Coupons	15 years	9.50	9.59	10.80
9		25 years	9.20	9.29	10.34
10	Irredeemables†		8.96	9.00	10.07
	Index-Linked				
11	Inflation rate 5%	5yrs	3.07	3.27	4.40
12	Inflation rate 5%	Over 5 yrs	4.34	4.41	3.81
13	Inflation rate 10%	5 yrs	3.24	3.43	3.02
14	Inflation rate 10%	Over 5 yrs	4.37	4.44	3.65
15	Debs &	5 years	11.13	11.14	11.54
16	Loans	15 years	10.83	10.84	11.47
17		25 years	10.83	10.84	11.43
18	Preference†		10.79	10.85	11.52

♦Opening index 1737.0; 10 am 1728.4; 11 am 1706.6; Noon 1681.5; 1 pm 1673.8; 2 pm 1661.5; 3 pm 1658.2; 3.30 pm 1650.4; 4 pm 1664.1

† Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A new list of constituents is available from the Publishers, The Financial Times, Bracken House, Cannon Street, London EC4P 4BY, price 15p, by post 32p.

LONDON TRADED OPTIONS

Option		Calls Jan.	Calls Apr.	Calls Jly.	Puts Jan.	Puts Apr.	Puts Jly.
Allied Lyons (*325)	300	43	55	65	15	[illegible]	[illegible]
	330	25	38	50	28	[illegible]	[illegible]
	360	15	25	35	48	[illegible]	[illegible]
Brit. Airways (*138)	130	33	39	50	15	[illegible]	[illegible]
	140	25	35	44	30	[illegible]	[illegible]
	160	15	24	35	38	[illegible]	[illegible]

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renunc. date	1987 High	1987 Low	Stock	Closing Price	+ or -	Net Div.	Times Cov'd	Gross Yield	P.E. Ratio
§130	F.P.	20/11	170	101	Alba 10p	101	-2	L3.8	2.2	5.1	10.3
361	F.P.	-	96	61	♦Amer.Plast.Inc. $0.01	71	-2	R025c	4.6	2.1	10.0
775	F.P.	6/11	240	160	Anglo Leasing 10p	165		L2.5	4.2	2.1	11.9
-	F.P.	23/10	27	17	Atlantic Assets Wrrnts.	17		-	-	-	-

FIXED INTEREST STOCKS

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1987 High	1987 Low	Stock	Closing Price p	+ or -
55	Nil	14/11	11pm	11½pm	Publishing Hldgs. 5p	2½pm	
30	Nil	15/12	5pm	10pm	Stonehill Hldgs.	10pm	-3
27	Nil	18/12	4½pm	1½pm	TR Energy	1½pm	-1½
270	Nil	5/11	33pm	4pm	Wace Group 20p	4pm	

Renunciation date usually last day for dealing free of stamp duty.a Annualised dividend.b Figures based on prospectus estimates.d Dividend rate paid or payable on part of capital, cover based on dividend on full capital.g Assumed dividend and yield .L Estimated annualised dividend,cover and p/e based on latest annual earnings.H Dividend and yield based on prospectus or other official estimates for 1987. Q Gross.R Forecast annualised dividend,cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures.Z Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided. ♥ Issued by tender.♣ Offered to holders of ordinary shares as a rights.† Introduction.§Placing price.†† Reintroduction.♦ Issued in connection with reorganisation merger or takeover.‡ Allotment price.♣ Unlisted securities market.♠ Official London listing.□ Including warrants entitlement.* Third Market.♦♦ Unit comprises 5 new ord. at 82p and £5 Nom.of 9pc.Cnv. Sub. Ln.1998.

WORLD STOCK MARKETS

AUSTRIA

November 3	Price Sch %	+ or −
Creditanstalt	2,050	+30
Goesser	2,900	−120
Interunfall	11,450	+100
Jungbunzlauer	7,000	—
Laenderbank	950	−10
Perlmooser	620	−2
Steyr-Daimler	114	−2
Veitscher Mag	715	−9

BELGIUM/LUXEMBOURG

November 3	Price Frs.	+ or −
B.B.L.	2,330	−20
Banque Gen. Du L.	13,800	−200
Bank Int. A	13,300	−100
Bekaert B	8,510	—
Ciment CBR	4,720	−130
Cockerill	132	+2
Cobrst	6,080	−300
Delhaize	3,150	+165
EBES	4,230	+25
Fabrique Nat	950	−20
GB Inno BM	832	−38
GBL(Brux)L	2,770	−180
Generale Bank	4,490	−20
Gevaert	6,300	−350
Hoboken	6,280	−80
Intercom	3,350	−50
Kredietbank	3,300	−50
Pan Holdings	12,000	—
Petrofina	9,500	−300

GERMANY

November 3	Price Dm.	+ or −
AEG	235.5	−11.2
Allianz AG	1,146	−49
BASF	260.5	−4.5
Bayer	277.1	−9.9
Bayer-Hypo	353	−10
Bayer-Vereln	346	−7
BHF-Bank	392	−8
BMW	486	−23
Brown Boveri	295	—
Commerzbank	241.2	−3.8
Cont'l Gummi	245.2	−5.6
Daimler-Benz	770	−34
Degussa	392	−18
D'sche Babcock	175	−5
Deutsche Bank	501.5	−18
Dresdner Bank	263	−4.5
Feldmuehle Nobel	255	−10
Henkel	515	−14
Hochtief	410	−10
Hoechst	254.3	−5.7
Hoesch Werke	102	−2
Holzmann (P)	300.2	−4.8
Horten	178	−3
Hussel	455	−7
Karstadt	445	−7.5
Kaufhof	424	−6
KHD	109	−1
Kloeckner Werke	130	—
Linde	565	−5
Lufthansa	132.5	−8
MAN	139.6	−6.4
Mannesmann	131	−8.7
Mercedes Hld	655	−22
Metallgesell	262	−15

NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
Union Carbide (xd)	7,618,500	22	+ ½	Santa Fe	1,473,500	55	+ 4⅜
AT&T	2,496,200	30	+ ⅛	Exxon	1,446,000	43⅞	+ 1
DPL	2,045,400	23⅝	− ⅜	General Electric	1,393,400	47⅛	− ⅜
Allied Signal	1,642,800	36½	+ ⅜	Nat. Semiconductors	1,366,200	12⅞	− ⅝
IBM	1,599,000	124½	+ 2	BP	1,298,600	16⅛	—

* Indicates pre-close figure

** Saturday October 31: Japan Nikkei 23328.91 . TSE 1917.42

Base values of all indices are 100 except Brussels SE − 1,000 JSE Gold − 255.7 JSE Industrials − 264.3 and Australia, All Ordinary and Metals − 500; NYSE All Common − 50; Standard and Poor's − 10; and Toronto Composite and Metals − 1000. Toronto Indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 Industrials plus 40 utilities, 40 Financials and 20 transports. (c) Closed.(u) Unavailable.

LONDON Chief price changes (in pence unless otherwise indicated)

RISES:

Tr.13¼pc 2004-08	£134⅞	+ 1⅛
Tr.2½pc IL 2003	£ 99⅝	+ 1⅜
Coalite	308	+15
Hill Samuel	795	+25
RMC	413	+23

FALLS:

Barclays	438	−32
Berisford (S&W)	295	−19
Brit & Comm	320	−23
BP New	76	− 5
Comm. Union	303	−20
Costain	205	−30
Courtaulds	319	−21
Fisons	244½	−29½
Grand Met	377	−26
ICI	£10	− ⅝
Jaguar	287	−35
Lloyds Bank	235	−29
Merry. Wine	345	−35
Minet Hldgs	325	−27
Norton Opax	121	−18
Royal Bk. Scotl.	300	−25
Trusthouse F.	181	−18
Warburg(SG)	310	−35
Willis Faber	244	−29

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
25⅝	14¾	AAR s	.36	1.8	21	275	19⅞	19⅜	19½	−¾
32½	17½	AFG s	.16	.6	9	344	25¾	25	25	−½
27	10½	AGS s			14	445	16¼	15½	16	
10½	6¾	AMCA				2	7½	7½	7½	+½
9⅝	3¼	AM Intl			43	2766	4¾	4½	4¾	+⅛
65½	29½	AMR			10	10850	36⅞	34¾	36	−½
25	19	ANR pf 2.12		10.		3	20½	20½	20½	+¾
12¼	6⅝	ARX s			7	112	7½	7⅛	7⅜	+⅛
73½	34½	ASA	2a	4.3		1226	47½	44¼	46⅞	−1
22⅜	9½	AVX			17	1090	13⅞	13	13½	−⅞
67	40	AbtLab	1	2.0	19	4237	50¾	48¼	50⅜	−⅛
28	15⅝	Abitibi g				100	17¾	17⅜	17½	−½
16¾	9	AcmeC	.40	3.6	12	604	11½	10⅞	11¼	−⅛
10½	6⅛	AcmeE	.32b	4.2	26	x54	7⅝	7	7⅝	
23¼	16½	AdaEx	3.30e	18.		166	18⅜	18⅛	18¼	−⅜
19½	7¾	AdmMs	.24	2.7	7	98	9⅛	8⅞	8⅞	−½
35	14⅛	AdvSys			16	501	27½	26½	27¼	+¾
24⅞	9½	AMD				6911	10½	9¾	10½	
56¾	30½	AMD pf	3	9.5		218	32	31½	31½	−1
11⅞	4¾	Adobe				1042	5⅞	5⅜	5½	−⅛
20½	15	Adob pf 1.84		11.		6	17¼	17	17	−¼
21⅞	17	Adob pf 2.40		13.		1	18⅛	18⅛	18⅛	
15	6⅛	Advest	.12a	1.5	6	280	8¼	7⅞	7⅞	−⅛
68¼	46	AetnLf	2.76	5.4	7	6133	51	49¼	50⅞	−¼
83½	30⅜	AflPb s	.32	.7	7	606	51	48	48	−5
26⅞	15	Ahmans	.88	5.3	7	4361	16½	15⅞	16½	−⅛
5⅜	1¾	Aileen				60	2⅜	2¼	2⅜	
55⅞	29	AirPrd	1	3.0	12	2569	33⅜	32⅜	33	−1
36	11½	AirbFrt	.60	4.5	8	142	13⅜	13	13¼	−⅝
16½	7⅝	Airgas n			17	37	11⅜	10¾	10¾	−⅝
19⅞	13½	AirleaseB.11e		14.	9	39	15½	15⅛	15⅜	+⅛
15-32	¼	AlMoan			19	5	⅜	⅜	⅜	
10¾	7⅝	AlaP dpf.87		10.		156	8¾	8⅝	8¾	
106½	81½	AlaP pf	9	10.		111	89	88¼	88¼	−¾
27⅞	12¼	AlskAir	.16	1.2	17	3713	13⅞	13	13⅛	−⅝
[illegible]										

Continued on Page 49

NYSE COMPOSITE CLOSING PRICES

Continued from Page 48

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
10¼	6¾	PrLP	pr1.15	14.		612	8½	8⅛	8¼	−⅛
15⅝	6⅝	PeryDr	.22	3.1		258	7¼	6⅞	7	−¼
40	18	Petrie	.70	3.4	13	495	21¼	20⅝	20⅞	−1
21¼	15½	PtPar	n 2	12.	12	234	17⅜	16½	16½	−⅞
33½	23⅛	PetRs	2.37e	9.7		144	24⅝	24⅛	24⅝	
20	15	PetRs	pf1.57	10.		68	15⅝	15¼	15¼	
2⅛	1	Ptrinv	.13e	8.7		5	1⅝	1⅝	1⅝	+⅛
77	40	Pfizer	1.80	3.3	13	5481	54¾	51⅝	54¾	+1¼
58	17⅝	PhelpD			17	7278	34⅞	32⅞	33⅝	−1⅜
74	37	PhlpD	pf 3	6.1		418	50¼	49	49⅛	−⅞
26	16¾	PhilaEl	2.20	11.	9	5963	20	19⅝	19⅞	
45½	34	PhE	pfA3.80	11.		z2300	35½	34½	35½	
49⅝	37½	PhE	pfB4.30	11.		z200	39½	39½	39½	+1½
49	36½	PhE	pfC4.40	12.		z560	38	36¼	38¼	+1¼
54	39	PhE	pfD4.68	11.		z50	41	41	41	
97⅛	69	PhE	pfG8.75	12.		z1130	74½	73½	74½	+½
106	85	PhE	pfS9.50	11.		z150	89	89	89	+1
100⅝	99½	PhE	pfT9.87	10.		z750	96	d96	96	−1
13⅞	11	PhE	pfR1.41	12.		35	12	11⅝	11⅝	−⅛
126	115	PhE	pfQ14.63	13.		1	115	115	115	
13¼	9⅞	PhE	pfP1.33	12.		68	11⅛	10⅞	11⅛	+¼
88⅝	65⅝	PhE	pfH7.85	11.		2400	71	70	71	+2
12⅞	9¾	PhE	pfO1.28	12.		106	11⅛	10⅞	11	
120½	110	PhE	pfM15.25	14.		z600	111⅛	111	111	+⅛
105	89½	PhE	pfL9.52	10.		z10	91½	91½	91½	+2
103	79	PhE	pfK9.50	12.		z690	83	80½	82	+1
86	64	PhE	pfJ7.80	11.		z600	70	67½	70	
[illegible]										
58¼	52½	Xerox	pf5.45	10.		317	54¼	53¾	54	+⅛
31½	18¾	XTRA	.64	2.8	18	265	23	22¼	22¾	−⅞
28¼	19½	XTRA	pf1.94	9.0		29	22	21½	21½	−1
33⅞	16⅛	Yorkin			9	113	23	22	22	−1¼
7¼	2¼	Zapata				124	3⅝	3⅜	3⅜	−⅛
37	14⅜	Zayre	.40	1.8	8	9834	22	19	21⅞	+1⅝
18½	9½	Zemex	.40	3.8	7	13	10⅝	10⅝	10⅝	+⅛
33⅝	10	ZenithE				2540	13⅝	13¼	13½	
13½	3⅛	ZenLab				1711	4⅝	4⅝	4⅝	−⅛
25½	13½	ZenNtl	.80	5.3	7	317	15⅞	15	15⅛	−1⅛
20⅝	11⅝	Zero	.36	2.6	13	171	14½	13¾	13⅞	−⅝
30¾	15	Zurnin	s .68	3.4	13	292	20⅞	19¾	20¼	−1¼
10⅝	7⅝	Zweig	.85e	7.5		465	8⅞	8⅝	8⅝	−¼

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-divident or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in-full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							

OVER-THE-COUNTER

Nasdaq national market, closing prices

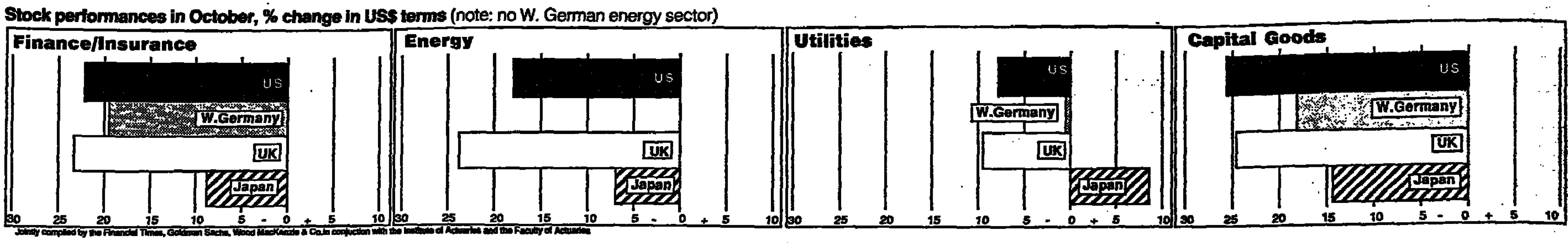
Stock	Sales (Hads)	High	Low	Last	Chng
[illegible]					

Continued on Page 47

FINANCIAL TIMES

WORLD STOCK MARKETS

Stock performances in October, % change in US$ terms (note: no W. German energy sector)



Jointly compiled by the Financial Times, Goldman Sachs, Wood MacKenzie & Co. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

AMERICA

Budget worries spur heavy selling

WALL STREET

SIGNS of a statemate in Washington over budget deficit cuts triggered a new wave of equity selling on Wall Street yesterday as investors grew gloomier about the US economic outlook, *writes Roderick Oram in New York.*

Following the pattern of recent weeks, the steep decline in stocks caused a flight into Treasury securities in the credit markets. Short-term interest rates tumbled and bond prices rose more than a point helped by a bounce back in the dollar. Earlier in the session bonds had been down about two-thirds of a point because of a weaker dollar.

Stocks opened weakly as some investors took profits after the markets five-session rally. But the selling accelerated as the markets became increasingly pessimistic about the economy.

At its worst, the Dow Jones industrial average was down more than 110 points by early afternoon before some institutional buying helped it recover some of its lost ground to close down 50.56 points at 1,963.53.

Broader market indices followed the same downward path with the Standard & Poor's 500 closing down 4.92 at 250.82 and the New York Stock Exchange composite index finished down 2.63 at 140.80.

Trading volume on the New York Stock Exchange accelerated to 227m from 176m on Monday with the number of declining stocks outpacing those advancing by 1,201 to 492. The exchange lifted its ban on member firms doing index arbitrage programmes for their own account but it continued to deny them the uses of its automated order entry systems for programm trading.

The selling was broad based, reflecting the general atmosphere. But some stock prices were driven by particular corporate developments. Most notably, Texaco fell $3¼ to $31 and Pennzoil rose $10⅞ to $65½, both on heavy volume.

The Texas Supreme Court upheld late on Monday a lower court award to Pennzoil of nearly $11bn of damages and accrued interest against Texaco. Only two avenues remain for Texaco, which is under bankruptcy court protection: an appeal to the US Supreme Court, which it plans to make, or to negotiate a settlement with Pennzoil.

WALL STREET: Best and worst performing share prices, % change in $ terms, Sept 30-Oct 30 1987

TOP TEN	
Potomac Electric	0.6
Duke Power	-1.0
Baltimore Gas & Elec	-1.1
Sthn Californ Edison	-3.3
Dominion Resources	-4.5
Allegheny Power	-5.3
Piedmont Aviation	-6.0
Jim Walter Corp	-6.2
Telex Corp	-6.3
Central & South West	-6.4
BOTTOM TEN	
Transco Energy	-50.8
Gap Inc	-51.3
Lorimar Telepictures	-52.8
Zenith Electronics	-53.0
Coopervision Inc	-53.5
Universal Matchbox	-54.8
Harcourt Brace Jov.	-55.2
Kaisertech Ltd Del	-55.7
Hutton (EF) Group	-56.9
Republicbank Group	-67.0

Other oil groups, which as a sector avoided the worst of last month's market rout, fell again yesterday. Exxon edged down $⅛ to $43½, Mobil dropped $2¼ to $39½, Amoco lost $1⅞ to $70¾, Atlantic Richfield gave up $1⅝ to $78⅝ and Chevron fell $1 to $42¾.

Santa Fe Southern Pacific added $¼ to $55¼. It agreed to the request of Olympia and York, the privately held Canadian natural resources and property group, to discuss a takeover offer equal to or better than Henley Group's $63 a share. There was no further news yesterday about the railroad and property groups discussions with Henley Group, off $½ to $20¾, which made its offer for Santa Fe on Monday.

Other railroad groups which had gained on Monday in the wake of the Henley offer slipped back yesterday. Burlington Northern fell $2⅞ to $60⅞, CSX lost $⅛ to $27¼, Union Pacific fell $2⅞ to $54⅜ and Norfolk Southern lost $⅜ to $23⅜.

Takeover stocks generally were mixed as arbitrageurs turned cautious. Singer slipped $1¼ to $46, and Brockway was unchanged at $51 although Telex added $1¼ to $57¼.

Calny rose $1⅛ to $10⅜. The fast food restaurant chain agreed to an $11-a-share takeover by the Taco Bell subsidiary of PepsiCo which had built up a 31.5 per cent stake in Calny.

Three more insurance companies reported sharply higher third-quarter results in line with their industry trend with mixed effect on the shares price. CIGNA was down $⅝ to $53⅜ and Continental Group lost $1¼ to $40¼ while Alexander and Alexander was up $⅜ to $19¼.

Computer stocks, one of the hardest hit sectors during October's sell-off, fell sharply again yesterday. IBM lost $2⅞ to $121⅞, Digital Equipment dropped $4⅛ to $134⅞, Hewlett Packard gave up $1½ to $49¾, Unisys lost $1⅜ to $31⅜ and Apple gave up $2¼ to $36½.

In the credit markets, bond prices dipped about two thirds of a point early in the session as the dollar continued to fall. However, they recovered as the currency rallied.

By late afternoon the 8.875 per cent benchmark Treasury long bond was up 1¼ of a point at 98²¹⁄₃₂ yielding 9.00 per cent. Short-term interest rates started the day higher but the steep sell off in the equity market brought a renewed flow of money into short-term government securities. The bond equivalent yield on three-month Treasury bills rose almost 20 basis points to 5.75 per cent.

The Treasury began its quarterly refunding yesterday with the auction of $9.75bn of three-year notes. The rally of bonds and the dollar shortly before the bids closed might have helped stimulate demand for the notes. Domestic commercial banks might be strong buyers because their deposits have risen rapidly recently but loan demand has remained weak.

CANADA

STEEP early falls on Wall Street pulled Toronto share prices lower in most major sectors, with oils, mines and industrials leading the way.

Among mines, Alcan Aluminium fell by C$1⅝ to C$32⅝, while Inco shed C$1¼ to C$20¾. Falconbridge was off C$⅝ at C$19⅝. Imperial Oil class A paced energy declines with a C2 fall to C$60¾. Gulf Canada Resources followed, losing C$R to C$17¼ and Shell Canada was C$1 cheaper at C$35¼.

Banks weakened across the board, with the Royal Bank of Canada shedding C$⅛ to C$27⅝ and the Bank of Montreal down C$½ at C$25⅞.

ASIA

Japan's institutions stay composed

TOKYO

JAPAN'S institutional investors remained optimistic despite the world markets crash, and were quick to buy shares at bargain price soon to buoy the market, *writes Shigeo Nishiwaki of Jiji Press.*

Some major and institutional investors even seem to have anticipated the crash and took precautions to prevent a panic that could have resulted in huge losses.

The day after the Wall Street debacle on October 19, Japan's market plunged 14.9 per cent as individual investors rushed to sell throughout the day.

The record one-day decline reduced the market capitalisation of shares listed on the first section of the Tokyo Stock Exchange by Y60 trillion (million million) to Y367tr - a sum greater than the size of the national budget for the current fiscal year.

Mr Kenichi Isaka, President of Nomura Securities Investment Trust Management, said his company cut the proportion of shares in its net assets to less than 30 per cent and strengthened its cash position in anticipation of a sharp market correction.

Institutional investors seem to have followed an unconsciously similar pattern in dealing with the international market slump.

At the end of last March, they accounted for 70.5 per cent of total shareholdings. The danger was that if one major investor decided to sell heavily, others would follow suit, sending share prices into a tailspin and

causing huge losses. This does not appear to have happened.

Since the market crash, Nippon Life Insurance has kept buying Y2bn to Y3bn a day - or about twice as much as usual. In the case of Nomura Securities Investment Trust, its daily purchases totalled Y15bn to Y35bn in recent days, depending on market sentiment.

In addition, the Finance Ministry has made repeated calls calls on life insurance firms and trust banks to buy shares in an effort to prevent prices from falling. This has helped the Japanese markets in a way that has not worked elsewhere.

The market fallout has given institutional investors an opportunity to buy shares at bargain prices, noted Mr Hideo Nakanishi, director and general manager of the securities investment department of the Sumitomo Trust and Banking.

In the week after 'black Monday' foreigners sold a record Y1,120bn more shares than they bought. By contrast, individual investors bought a record Y390bn more than they sold and corporations bought Y310bn more than they sold. This combination promoted a sharp rally in the market.

Institutional investors remain cautious over the market's outlook, despite their current buying spree. It will take two or three months before the market returns to the levels prevailing before the crash, said Mr Isaka.

Mr Hajime Hirashima, senior managing director of Nippon Life Insurance - the largest institutional investor with more than Y12 trillion worth of shares at the market price - said his company suffered a heavy unrealised loss of just under Y2 trillion in a single day.

Japanese institutional investors are, meanwhile, being urged to decide on their bidding policy at the forthcoming auction of 30-year US government bonds on November 5.

The Japanese institutions have been successful bidders for 30 to 40 per cent of the US long-term government bonds. Fears of a capital outflow from the US after the market slide have drawn attention to the Japanese investors success.

One institutional investor, responding to the Japanese Government's implicit request to buy US bonds, said it is not preferable to buy them when the differential in bond yields between the two countries is just over 4 per cent and when fears of a weaker dollar have not yet been dispelled.

Tokyo was closed for a national holiday

HONG KONG

AFTER A firmer opening, Hong Kong share prices gave up gains to end slightly lower, with dealing still restricted by widespread concern over the liquidity of smaller brokers. The Hang Seng index finished 22.49 lower at 2,180.74 in dull turnover of HK$1.11bn.

Big securities houses stayed largely on the sidelines, agreeing to sell only for cash.

Utilities, however, managed modest gains, with China Light rising 30 cents to HK$17.70 and Hong Kong Telephone 10 cents higher at HK$12. Hong Kong Electric, though, dipped 5 cents to HK$7.50.

SINGAPORE

A BLEND of overseas selling and scattered domestic bargain-hunting left Singapore share prices mixed in quiet trade. Turnover was dampened to 48.7m shares from Monday's 58m by the holiday on the Tokyo exchange. The Straits Times industrial index ended 1.11 higher at 873.45.

Metro starred with a 55 cent gain to S$6.70 and Tractors rose 35 cents to S$3.20. Singapore Finance added 40 cents to S$2.00. Keppel, though, fell 1 cent to S$2.24 and Shangri-La was weaker by 4 cents to S$3.80. Cold Storage was off 4 cents at S$4.20.

Australia was closed for a holiday.

Blue chips trail in wake of dollar

WOEFUL MARKETS in Europe could do little else but follow the dollar's decline during trading hours yesterday. A late rise in the US currency came after bourses had closed leaving share prices and operators depressed.

FRANKFURT was stung as the dollar fell to a record low of DM1.7050. Any efforts to initiate a buying spree for bargain-basement shares continued to be undermined by the fragile state of the US currency and equities markets.

Favourable corporate news from major companies failed to lift depressed spirits and shares ended lower in all sectors. The Commerzbank index lost 20 to 1,485.3 in a thin market.

The Boersen-Zeitung 30-share index, calculated four times during the session, dropped 9.11 to 303, a slide of almost three per cent.

VW descended DM4.40 to DM268.10 after the company announced a 6.5 per cent rise in net profits for the first nine months.

Other carmakers also fell, with BMW dropping DM23 to DM486, Daimler declined DM34 to DM770 and Porsche lost another DM20 to DM630.

Retailer Karstadt ended DM7.50 lower at DM445 despite announcing a strong rise in third quarter profits.

In banks, Deutsche fell DM18 to DM501.50 marks, Dresdner eased DM4.50 to DM263 and Commerzbank weakened DM3.80 to DM241.20.

Prices of public authority bonds were slightly firmer in moderate trading, rising as the dollar fell. The Bundesbank bought $25.8m of paper.

ZURICH was taken lower by the falling dollar which undermined the little confidence that had emerged over the previous two sessions.

Engineerings were broadly lower as Brown Boveri dropped SFr170 to SFr2,140 and Saurer fell SFr20 to SFr280.

Holding shares lost most of the gains of the two previous sessions with losses spread throughout the sector.

Among chemical shares Ciba-Geigy fell SFr150 to SFr2,900 and Sandoz shed SFr700 to SFr11,100.

Insurers saw Swiss Re bearer down SFr200 to SFr13,200 and Winterthur SFr100 lower at SFr5,000.

PARIS lost heart and the little enthusiasm from the steady opening quickly evaporated as upward pressure on French interest rates and the sliding dollar pushed investors to the sidelines.

The CAC index slipped 0.5 to 310.9 but did not reflect the afternoon's losses.

Peugeot was down FFr16 to FFr1,144 and components producer Valeo lost FFr11 to FFr499. Michelin held up against the trend, gaining FFr5.5 to FFr244.

The Finance Mininstry said that domestic purchasers of shares in the privatisation of Cie Financiere de Suez SA will be required to pay in two equal instalments of FFr158.50, the first payment falling due on November 18.

AMSTERDAM saw a dull, lacklustre day as a lower opening on Wall Street and persistent dollar worries kept investors away.

Akzo plunged Fl 18 to close at Fl 99.00, after hitting a low of Fl 97.00. The chemicals and fibres group reported a 20 per cent fall in third quarter net profits.

Philips closed Fl 2 lower at Fl 31.50, Royal Dutch slipped Fl 1.80 to Fl 208.50 and Unilever fell Fl 3.30 to Fl 104.50.

Avionics group Fokker closed Fl 2.20 guilders lower at Fl 24.10.

BRUSSELS witnessed a day of steady selling at the end of the two-week trading period as operators took advantage of last week's upward movement to sell.

Share prices moved lower over a broad front and the cash market index lost 8.07 to 3,947.33.

In holdings, Reserve, the share of Societe Generale de Belgique, opened BFr60 lower and fell a further BFr50 during trading to end at BFr2,410, GBL lost BFr180 to BFr2,770 and Cobepa dropped BFr300 to BFr4,700.

Utilities and industrials were generally less sharply hit, but Electrafina was notable for its BFr290 slide to BFr5,510.

Most shares in the financial services sector were only slightly lower.

STOCKHOLM declined as foreign investors kept up their sell-off, sending blue chips sharply lower. There were few buyers to be seen and turnover was low.

The Affaersvaerlden general index dropped 17.6 to 737.6.

Sweden's financial watchdog, the bank inspection board, said it has withdrawn the licence of a Stockholm brokerage firm after repeatedly infringing share and option trading regulations. Civic Fondkommission said it would appeal against the decision which means that it would no longer be a member of the Stockholm Bourse.

OSLO remained nervous and profit-takers moved in quickly after Monday's gains. The all-share index dropped 2.39 to 308.61 in thin turnover.

Banks showed the heaviest losses, as Den Norske Creditbank slid NKr6.5 to NKr162, followed by Bergen Bank's NKr4 loss to NKr185.

Oils eased after news that Opec Gulf states would seek a higher production ceiling at their forthcoming meeting.

MILAN continued subdued as institutional investors remained absent from the market. The MIB share price index, base January 2 1987 equals 1,000, closed 0.94 per cent down on the day at 736.

Renewed political uncertainty and the hangover of the Senate's rejection of the budget continued to depress activity, keeping turnover low.

Blue chips Fiat, Montedison and Olivetti all closed more than 2 per cent lower than Monday's levels.

MADRID turned mixed as selective profit-taking set in after after two days of advances. Patchy buying left the general index 0.88 higher at 239.56 after a choopy day of see-saw trading.

Banks posted the strongest gains, building on their good performance over recent days. Engineering issues also fared well but constructions were broadly lower on profit-taking.

LONDON

THE CAUTIOUS recovery of confidence in the London stock markets was abruptly jolted yesterday when the US dollar renewed its downward slide, *writes Terry Byland in London.*

With UK share traders now quick to sense trends in the global marketplace, equities dropped heavily as London assumed that Wall Street would open on the down tack. By the close, the FT-SE 100 index had lost 69.8 to 1653.9.

The sudden setback in share prices revived concerns for the financial health of some of London's marketmaking firms. The City is sensitive because last Monday's equity settlement operation requires trading firms to settle accounts for deals struck during the first week of the market's plunge.

LONDON: Best and worst performing share prices, % change in $ terms, Sept 30-Oct 30 1987

TOP	
Greenall Whitley 'A'	26.5
Hill Samuel GF	10.4
Berisford (S & W)	6.3
Greene King	6.3
Boddington's Brewery	0.7
Whitbread 'B'	-1.8
Marston Thomson	-4.2
Woolworth Hdgs	-5.4
Black (Peter) Hdgs	-6.1
Low (W)	-7.3
BOTTOM	
Greycoat Group	-41.4
Carlton Comms	-42.0
Jaguar	-42.5
Wates City/Ldn Prop	-42.6
Johnson Matthey	-44.1
Standard Chartered	-45.0
Morgan Grenfell GP	-45.4
Reuters Hdgs 'B'	-48.7
Henderson Admin	-50.7
Rosehaugh	-51.5

The British Government bond sector, however, refused to be distressed by the latest turn of events in the currency markets. The bullish tone of the Autumn economic statement from Mr Nigel Lawson, the UK Chancellor of the Exchequer, was "just the thing the market wanted to hear," commented a trader. Bonds gained around ⅞ of a point.

The reaction in equities, which plunged back towards their lowest points, jangled the nerves of already overwrought traders. Rumours of impending sell programmes or of financial stresses at major trading firms, resounded in the marketplace, although there was no evidence of either.

One cause for worry was a slide in the partly-paid shares of British Petroleum to within 6p of the 70p support price guaranteed by the Bank of England. Overseas institutions continued to unload the BP partly-paid stock taken aboard in the unhappy underwriting excercise of the past three weeks.

SOUTH AFRICA

KNOCKED by the combined effects of an easier bullion price and a firmer financial rand - which trimmed the gold price in local terms - Johannesburg gold issues closed sharply down.

Leading gold stocks lost ground, with Randfontein off R15 at R300, Vaal Reefs down R10 at R350 and South Vaal falling R3 to R172. Libanon gave up R6.50 to R65, while Driefontein, dropped R3 to R72.

Second string golds fared no better and Kinross lost R5 to R55, Bracken slid 10 cents to R7, while Leslie was 75 cents cheaper at R5.75.

Platinum shares ended mixed. Lefko was R1.75 down at R9 and Impala lower by 25 cents at R32.25. Lydenburg and Rustenburg, though, both managed climbs of 25 cents to R34.25 each. Diamond stock De Beers shed R1.75 to R35.

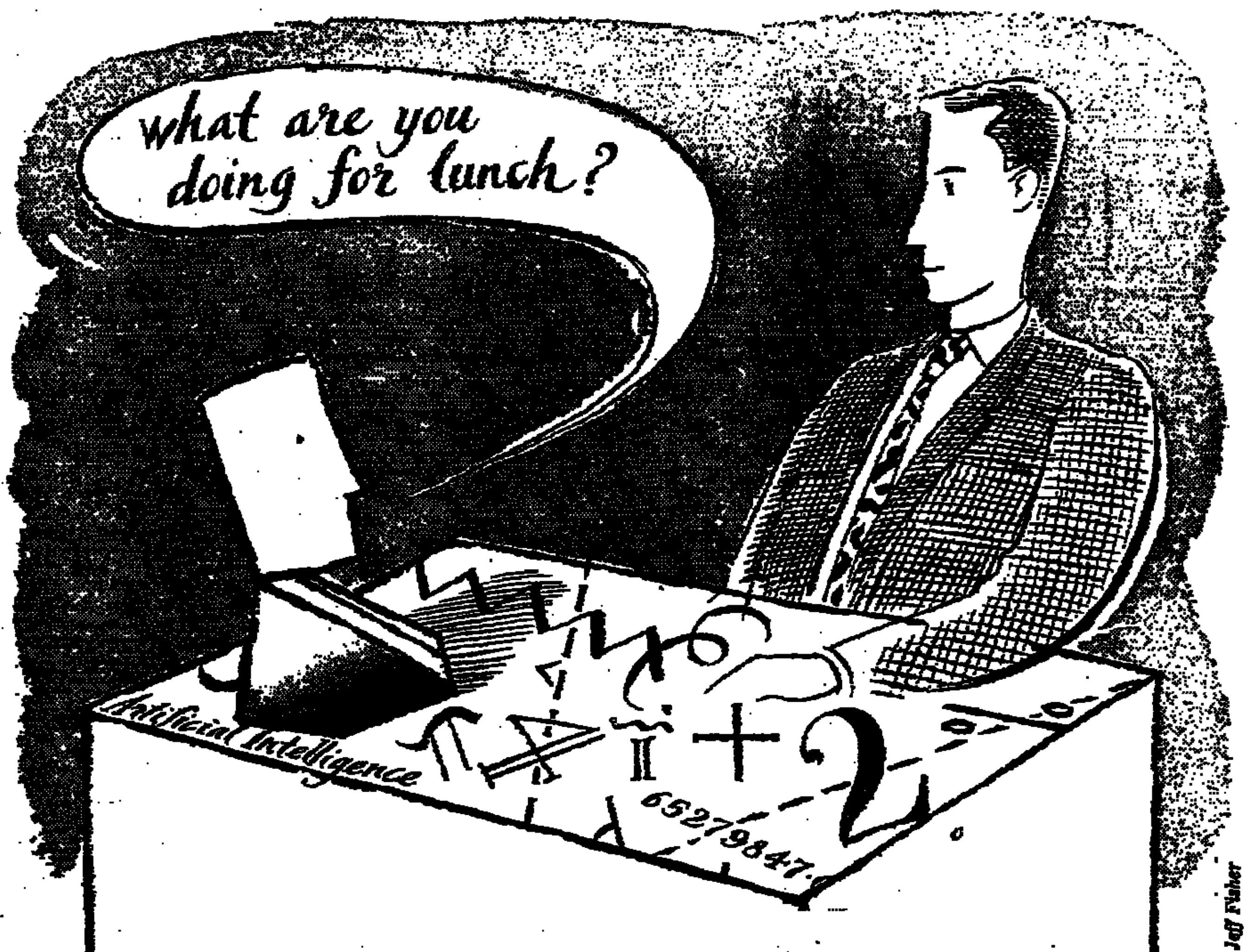
Mining financials were also moved sideways, with Anglos R1.50 off at R66 and Gold Fields of South Africa down R2 at R65. Rand Mines, though, pulled up 50 cents to R81. Mining exploration issues eased, Freddev by R3.50 to R18 and Rhombus by 80 cents to R3.70.

Barlow Rand edged down R1 to R19.50 in mixed industrial issues, while Safren also lost R1 to R22.

SECTION III

FINANCIAL TIMES SURVEY

The business computer market is showing signs of resurgence, although only a shadow of its performance earlier in the decade. Many customers are still wrestling with the problem of justifying hefty new investments in computer systems in attempts to secure a competitive advantage, as **Alan Cane** reports.



Jeff Fisher

Computers in Business

The market improves

THE SIGNS are that business is recovering its faith in computing after two years of hesitation and uncertainty. Two important US indicators, the level of orders for computers and office equipment and the health of the semiconductor industry are both improving.

But it is clear that it has been an extended period of reflection and introspection both for computer users and for the computer industry.

Customers are still wrestling with the problem of justifying massive new investment in computer systems in attempts to secure a competitive edge over their competition, while the industry has learned that it cannot expect its clients to be blindly impressed with technology.

IBM, in particular, has come to terms with the fact that it can no longer expect wholly to dictate its customers' data processing strategies. In the second of a series of quarterly surveys in management information systems (MIS) departments, the New York stockbroker Paine Webber found there had been a sharp rise in their respondents' impression of IBM between March this year and September. Paine Webber computer analyst Stephen Smith notes: "IBM's recent moves to improve personal computer and mid-range connectivity are the most likely reasons for the sharp change in users' opinions.

These improvements included the new range of personal computers PS/2, which Mr Smith says "has already made substantial inroads into the thought processes of MIS departments," the new operating system OS/2 for these machines being developed by Microsoft and, most important of all, a statement of direction which IBM calls Systems Applications Architecture (SAA).

Essentially, this is a commitment on the part of IBM to the notion that every computer in the range should be able to run the same software and that the way each system behaves should seem the same to the user.

Business is, in fact, demanding standards and conformity and the industry is steadily yielding to its demands.

The evidence seems to be accumulating that for small and mid-range machines, the Unix bandwagon has become unstoppable. Faced with a bewildering array of incompatible operating systems, the complex programs which control a computer's internal operations and which determine which application programs can be run, and resenting IBM's market dominance, a group of the world's major computer companies put their weight behind Unix as an industry standard.

Although everybody paid lip-service to the concept and manufacturer after manufacturer announced Unix-based machines, in reality Unix did not take the market by storm. But now there are signs that it may be achieving critical mass. IDC *Europa, the market analysis organisation*, notes that of 38,000 small systems shipped in the UK in 1986, 6,500 were Unix-based.

At the top end of the market, the whole question of standards in operating systems took a sharp twist with the announcement that IBM and Fujitsu had settled a long-running operating system dispute in a way which effectively created an new mainframe standard. Fujitsu builds IBM-compatible mainframes, computers which are functionally identical to IBM's and can run the same operating and application software. Fujitsu went further than other compatible manufacturers by creating its own copy of IBM's operating software.

IBM argued that Fujitsu's design infringed its copyright and looked for a settlement under the auspices of the American Arbitration Association. The arbitrators upheld Fujitsu's claims that it should have access to basic information about the design of IBM software but insisted that it should pay a substantial but undisclosed sum for the privilege.

Mr Smith of Paine Webber comments: "From the perspective of most users and software vendors the settlement put forward by the arbitrators appears to be good news. From the perspective of, say, Unisys, currently the world's second largest computer vendor, the arrangement can be seen as as a com*mitment by two of its largest* competitors to exchange critical proprietary information in order to further their own standard to the detriment of other competing approaches to mainframe computing."

Ironically enough, at one time Fujitsu apparently considered abandoning its policy of compatibility with IBM to establish Unix as an alternative mainframe standard. Fujitsu has now launched a family of medium-sized machines in Europe with the idea of securing a position in the fast-growing minicomputer market. It is using, as the operating system for these machines, Pick, a system with some resemblance to Unix which has a small but enthusiastic group of users.

Overall, experts do not expect the business computer market to grow more than about 9 per cent in 1987, better than in the two previous years but a shadow of its performance earlier in the decade.

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The mainframe computer sector, virtually the exclusive preserve of US and Japanese companies, is not expected to grow much more than 4 per cent, while the medium-scale market should be twice that. The personal computer market, on the other hand, seems likely to grow by about 15 per cent. IDC Europa estimates that shipments from US manufacturers will be worth $23.9bn, compared to only $18.25bn for large-scale systems and $16.2bn for mid-range machines.

Part of the explanation for this was given by Mr Robb Wilmot, former managing director of the UK mainframe manufacturer ICL. Speaking to the UK Software Valley Consortium, he pointed out that only the computer industry charges more for buying in bulk. A microcomputer could deliver 1m instructions processed a second (mips, a measure of computer power) for $1000, a mini the same for $10,000 but mainframes can cost up to $40,000 a mips.

He predicted that large mainframe suppliers would increasingly find it hard to survive as they were forced to reduce their prices 100 times to compete with modern, smaller architectures. The most advanced semiconductor companies like Mips in the US and Inmos in the UK have already developed chips with processing power equal to 10 mips for a few hundred dollars or less.

Despite its strong growth potential, the microcomputer sector is still in some confusion as a result of the launch of the Personal System/2 family - which features advanced architecture, graphics and makes use at the top end of the very powerful Intel 386 processor chip - by IBM late last year. There are, however, at least two important trends. First, the return of the personal computer to the data processing domain. Second, the re-emergence of the Apple Macintosh as a creditable alternative to IBM.

The first trend is an interesting example of market dynamics. Corporate data processing used to lie solely in the hands of the data processing staff who controlled the data centre. The emergence of the microcomputer put substantial data processing power in the hands of the real "end users," *the corporate* executives, and out of the control of the data centre.

There was an uneasy period when DP managers fretted about the amount of data processing in the organisation which was not under their control and executives worried about the difficulty of making their computers carry out useful tasks - this was when copies of Lotus 1-2-3, the best-selling spreadsheet, would be purchased only to gather dust on office shelves.

But as microcomputers became more powerful with the advent first of 16-bit and then 32-bit processor chips, they again fitted into the DP manager's empire. They became - as executive workstations - part of the corporate information technology strategy.

According to Mr David O'Brien, managing director of Rank Xerox (UK): "If technology is going to support an organisation effectively, then it has to relate to the way people work, think and communicate.

"What businesses need is a balance between central control of access to the system plus freedom for end users to interact with the information in a way which suits the way they work." The resurgence of Apple, and in particular the growing success of the Apple Macintosh, vindicates that view.

The Macintosh is an idiosyncratic computer designed to be easy to use for people with little computer training but at first it has little appeal in the business world when compared with the formal, data processing approach of the IBM PC.

The continued growth of executive computing and the emergence of desk top publishing as a corporate activity changed all that, together with the release by Apple on new and much more powerful Macintosh machines. In the UK the marketing consultancy Intelligent Electronics noted: "Apple has changed its image but it has some way to go to be fully accepted as a dedicated business computer manufacturer."

It has been a period in which more questions have sprung up than have been answered. Among them: How much will the IBM/Fujitsu settlement affect IBM's dominance in mainframe markets? Will Compaq and other IBM compatible microcomputer manufacturers have to follow IBM's PS/2 architecture or is there room for a separate line of products based on the powerful Intel 386 chip?

As the dust settles over the next few months, it should be possible to see whether business computing has been altered irrevocably or whether the status quo will remain unshaken.

Prospects for data processing in the UK

Worries over lack of training

ANXIETIES about the availability and cost of data processing staff are again stalking the UK data processing industry.

Last month Mr Richard Firth of the National Computing Centre warned that if present trends continue, the shortfall could be 53,000 analysts and programmers by 1991. Geoffrey Unwin, managing director of the Hoskyns Group and incoming president of the Computing Services Association said at its annual general meeting that the shortages were caused by a fundamental lack of training within the industry.

It was exacerbated by the inflated salaries some organisations - especially those in the financial services sector - were prepared to pay to help solve short term problems.

He said:"The biggest culprits are a number of organisations in the City who, particularly during the period of Big Bang, have bid-up salaries in order to attract people and in return have not made their full contribution towards training."

Mr Unwin went on to warn that the industry might have to adopt a 'transfer fee' approach similar to the kind found in sport when a trained computer specialist moved from one firm to another."

The root of the problem lies in the fact that training is the first activity to be cut when times get tough. This was certainly true in the recession of the early 1970s when cutbacks in training programmes created a desperate shortage of staff later in the decade.

That was alleviated to some extent by the newly awakened interest in information technology in the UK around 1978 which brought a flood of young people anxious to learn about computing into the universities, polytechnics and colleges.

Now the picture looks bleak again, at least partly due to the way the financial services industry has sucked in staff by paying over the odds.

Among the ideas which have been put forward to alleviate the shortfall are a return to the old training levy and tax credits for companies which can prove they have made a substantial contribution to training.

The computing services industry training council, COSIT, has taken a positive step in the formation of the industry standard development programme, ISDP, an agreed programme of work which should produce a skilled information technology worker in a minimum of three years.

'Training in data processing skills is the first activity to be cut when times get tough in the UK'

The key to the scheme is a training log book retained by the employee but supervised by the employer. Once the scheme is in full swing, the log book would serve as recognition of, the level of skill attained by the employee and the investment made in his or her training.

The chief shortages are of highly qualified technicians in areas such as database management, datacommunications and artificial intelligence but just as worrying is the shortage of applications specialists, people qualified both in computing and in specialist areas like accounting, distribution or retailing.

The overall emphasis in UK computing has shifted from a concentration on the physics and chemistry of advanced computing to an emphasis on the use of computers in industry and commerce.

The IT86 committee, a group under Sir Austin Bide appointed to advise the Government on its strategy following the Alvey programme designed to bring industry and the academics closer together in pursuing high technology was in no doubt of the value of this move.

It warned last November: 'More effective development and use of information technology will improve the competitiveness of industry in general. Failure to respond fully and swiftly to the opportunities it offers would seriously damage that competitiveness'.

But by most measures, British industry is failing to respond adequately to the IT challenge and there are fears that after the barnstorming efforts of the early 1980s, the Government is running out of steam in its efforts to promote IT.

'It has lost its way and is simply pecking at the problem' one Northern industrialist commented.

These fears have been reinforced by the dismissal after the election this year of Mr Geoffrey Pattie, the minister for information technology who had been closely identified with the move towards applications, and with the Government's failure to announce funding for a programme to succeed the Alvey initiative.

Industrialistss and academics alike have been trying to encourage the Government to respond positively to the Bide suggestions - the core of which was a £5bn, five-year programme aimed at applications rather than basic research.

Now they have become pessimistic at the lack of response from the ministers concerned.

So it looks as if it will be left to British industry and commerce to make the best use of information technology it can.

Significantly, the data processing industry seems to be taking the challenge seriously. There is intense interest, at least within the larger companies, in improving productivity and in using computing power to secure competitive advantage.

The evidence for this is the blue chip quality of the membership of the UK chapter of the Association for Information Management and the success of organisations like the Butler Cox Foundation, aimed at improving the quality of computing management.

A new report by the Butler Cox organisation shows that the application of information technology growing at the fastest rate in the UK are the electronic transmission of paperwork, communications between staff in the field and the office and the electronic transmission of customer orders.

All of these emphasis the importance of the value-added network service (VANS), computing services offered on the telephone network over and above ordinary voice telephony.

They are offered in the UK by a number of major companies including ICL, IBM, Geisco, Istel and EDS. Experts argue that the establishment of an electronic link between a supplier and his customer is one of the most powerful ways of securing competitive advantage through information technology.

Over the next few years businesses ranging from retail and distribution through to leisure and travel should be introducing and enhancing these electronic links in the UK and abroad. But adequate staff will be essential. Managers say that shortage of staff is a bigger block to the use of information technology than any other single factor.

Alan Cane

☐*Skill shortages: an imbalance of supply and demand: page 12.*

Data-processing expenditure

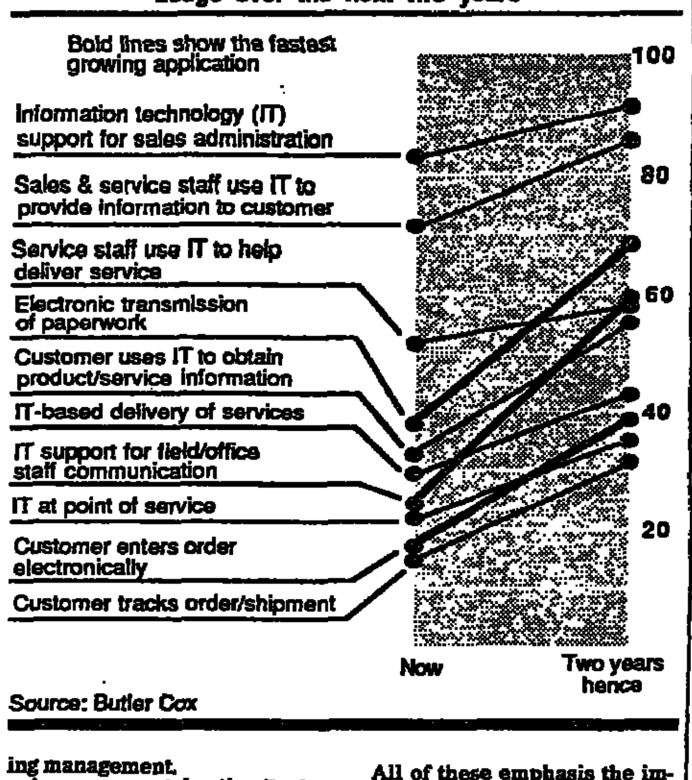
© UK expenditure (values in $m at 1986 average $ exchange rate).

	1985	1986	1987	1988
Total hardware	7,135	7,400	7,900	8,800
Hardware maintenance	1,210	1,360	1,500	1,650
Software & services	3,163	3,808	4,460	5,240
DP supplies	705	800	890	980
Line charges to PTT	380	491	599	732
External expenditure	12,593	13,859	15,349	17,402
Staff	5,013	5,449	5,615	5,783
Overheads	560	600	615	625
Internal expenditure	5,573	6,050	6,230	6,408
Total expenditure	18,166	19,909	21,579	23,810

Source: IDC – "DP Forecasts and Spending Patterns", Western Europe, 1986-1992.

Changing applications usage

The shift in information technology applications usage over the next two years



Source: Butler Cox

Sales revenue

● UK DP domestic revenue from sales only

	1985	1986
IBM	£1,460m	£1,646m[1]
ICL	£617m	£699
DEC FY	£450m	£538m
IDC Calendar Year Estimate	(£499m	£620m)
Unisys	N/A	£250m
NCR	£124m	£142m
HP	£153m*	£160m*
H-Bull	£144m	£157m
Olivetti	£107m	£123m)

*IDC Estimate.

[1] Includes some exports made by leasing companies after initial sale in UK.

Source: IDC Europe: "DP Forecasts and Spending Patterns, W. Europe, 1986-1992".

Developments in West Germany

Investing heavily in new systems

WEST GERMAN businessmen have a deserved reputation for their conservative approach to most things new. Initially, this Teutonic tendency to wait-and-see led to a growing gap between computer-usage in Germany compared to the booming applications' growth in the US, the UK and Japan.

Now that gap is closing as German multinationals invest heavily in new computer technology to help cut production costs. Perhaps because of its slowness to enter the electronic fray in the first place, West Germany offers a large market potential for computer companies.

According to survey by the Internationa Data Corporation, West Germany ranked number two worldwide in data-processing spending last year, with a $20.5 bn market. The US was far and away the largest at $173bn.

In West Germany, even the thousands of medium to small-sized companies who make up the backbone of the economy are beginning to see the light of visual display units - in Germany's case, it is a bright glowing green, the colour specified for a computer's "power on" light. There are an estimated 900,000 personal computers installed in West German offices now,although this represents only a third of the potential office computer market, says Mr Peter Steding, management consultant for Dieboldt.

This year, the total West German computer market, including hardware and software, should reach Dm45bn, a 9% increase compared to last year, predicts Mr.Steding. Sales of PCs should be even better,with a rise of 16% to 411,000 units shipped, he predicts.

"Prices have been falling 30 to 40% a year, but the average value of a computer contract has hardly changed, meaning people are ordering higher-value products," he adds.

The surge in computer hardware sales (in numbers, if not in D-marks), reflects a technology-driven market, with new computer models offering more memory and faster speed at less than last year's prices. But the average price for a personal computer in West Germany seems has settled at Dm5,300 this year, about five percent more than the average PC price paid in 1984, adds Mr Steding.

But in terms of increased Dm sales, the best market in west germany now is for software and office communications systems. The major demand from West German computer-users is for networking capabilities and OSI compatbility, says Karl J. Duering, a Hewlett-Packard executive in Bad Homburg. The concept of flexible unix-based software is being slowly accepted by both commercial and research-mind customers, says the Hewlett-Packard executive.

"Now all are asking for networking and compatible systems. But these are software questions, and all firms must deal with it," says Mr.Duering. The software development leading to text, data and electronic services integration will be the dominant trend for the next three to five years, he says.

Unix-based systems support the standardisation is demanded by most computer-users now. A number of larger West German companies already require new computer purchases which have open OSI capability, says Digital Equipment in Munich.

"The want their Siemens system to work with their DEC and IBM computers. The user wants the equipment to function as easily as a telephone. That's why Unix and OSI capability are increasingly important. There's a definite trend in this direction," says a DEC executive.

The difference in West Germany is that such systems' integration is being pushed more by the computer companies who offer it, rather than being demanded by users, says a market analyst. There is now a 12-to-18 month time gap between developments in West Germany, compared to advances in the computer market in the US, yet major multinationals such as Daimler-Benz, Volkswagen, Bayer, BASF and Hoechst all have advanced data processing departments, says a DEC official.

World economic trends, including the big drop in world stock market prices in late October, has tended to push West German companies towards increasing computer-related investments. The weak dollar, depreciating almost 40% in value against the D-mark in the past two years, has caused export-oriented companies to cut costs and seek ways to increase productivity.

The range of computer technologies, from computer-aided design and manufacturing towards the distant shimmering goal of computer integrated manufacturing, is especially important for a high-wage economy like West Germany's. With health insurance and pension costs adding 50% or more to wage bills, West German companies often prefer to invest in new technology rather than add new jobs.

Software is the key factor in such information integration systems. The consultantcy firm, Dieboldt, predicts that West German software and computer service sales will increase 15% this year to Dm 16.1bn (the 1986 figure was Dm14bn). That trend is double the predicted 8% growth for total hardware sales of Dm 18.4bn this year. (The 1986 figure was Dm17bn).

Diebolt's statistics for hardware sales for 1986 show that West Germany spent Dm2.5bn on microcomputers (many for home users), plus Dm1bn on small systems, Dm3.6bn for medium-sized systems and Dm7.3bn on mainframes.

The consultancy sees an especially strong market for office telecommunications systems. The 4,000 office communications systems installed in larger West Germany companies at the beginning to this year should reach 25,000 by 1990.

The recent stock market traumas should not depress manyplanned investments for computer-related equipment, predicts Gunter Wolf, spokesman for the German Machinery and Plant Manufacturers' Association (VDMA) in Frankfurt. "I trust that in a few more days the situation will improve. As for manufacturers, long-term plans for investment in computers will generally go ahead," he says.The most recent VDMA statistics bear out his optimistic outlook. Computer sales were improving in August as export orders that month increased 16.1%, compared to the same month a year earlier. Domestic orders increased 11.2%, says Mr Wolf.

Dennis Phillips
Bonn.

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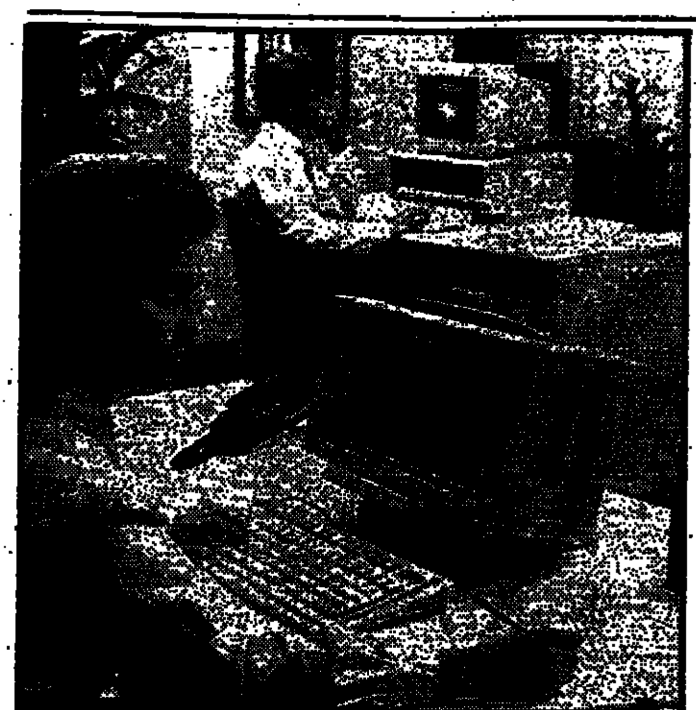


Pressure for space on the desktop is building up relentlessly as computers become as essential as the telephone to the new-generation business executive. The size of a computer's footprint is becoming a key consideration. Above: the Compaq Portable 386 - claimed to be "pound for pound, the most powerful computer ever built."

Upheavals in the US market

Buyers facing difficult choices

THIS HAS been a year of hard choices for business computer-buyers. New product introductions by each of the major US personal computer manufacturers have significantly lowered the cost of raw computer power. At the same time, however, the computer makers have shattered the *de facto* software standards that have ruled in the business microcomputer world for the past five years.

With its launch of the PS/2 family of 'personal systems' in April, IBM shattered the 'calm' of the personal computer world. While previously business buyers had been faced with the relatively simple choice of 'IBM' or 'compatible', the PS/2 introduction forced them into a complex analysis of the relative merits of a still to be launched multi-tasking operating system versus the known limitations of the established personal computer software base

Apple Computer added a new dimension to the business personal computer decision with its launch in January of upgraded 'Macintosh' models that forced business buyers to re-assess the advantages of its unique 'graphics interface' that makes the Macintosh a superior solution for desktop publishing needs

Most recently, Compaq Computer has added to the confusion by introducing personal computers that outperform IBM's top models but which do not totally conform to the new IBM standard

Faced with a plethora of new products, business computer buyers must now bet upon new generation personal computer standards that are increasingly unclear.

With a plethora of new products in the US, the new generation of computing standards is far from clear

Will OS/2, the new operating system adopted by IBM but as yet unavailable, offer significant improvements over current standards?

Does IBM's 'microchannel' architecture represent a link to the networking standards of the future, or is it merely an IBM effort to introduce proprietary technology and prevent 'cloning'?

Is Apple Computer ahead of the rest with its proprietary Macintosh technology, or is it out on a limb?

Computer-buyers are also faced with the increasingly confusing array of 'supermicro' computers, workstations and 'supermini' computers that cut across established performance boundaries to introduce new competitors in some market sectors.

Adding to the quandaries faced by data processing managers is the vexing question of how to link and increasingly diverse base of computers into a company wide integrated information system.

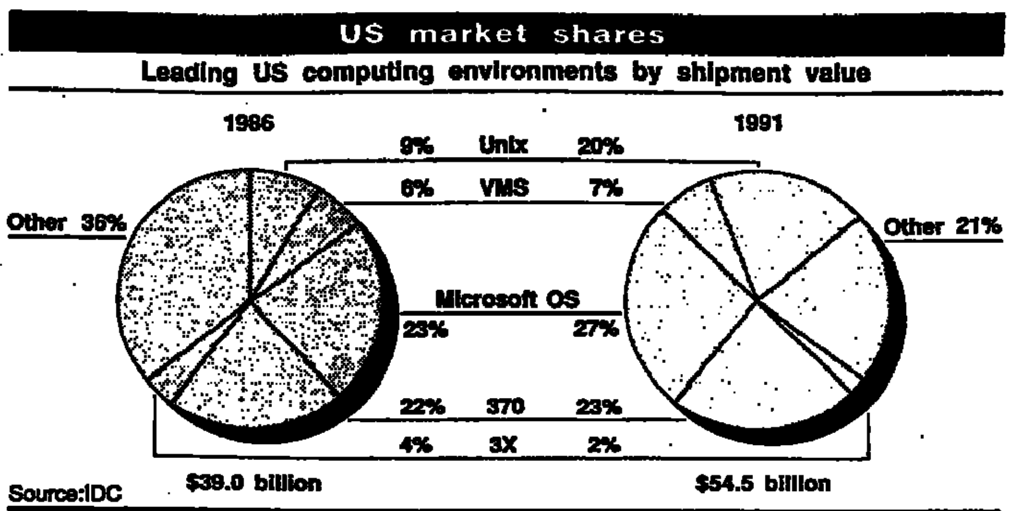
US computer vendors are intent upon solving the problems of computer communication, but to date they offer only patchwork solutions. 'Multi-vendor inter-operability' is the goal of users and manufacturers alike. Business computer users want to be able to run different brands and types of computers on an integrated system.

To meet this need, computer manufacturers have pledged their support to the International Organisation for Standardisation's 'Open System Interconnection' model. It will, however, be at least five years before details of the OSI standard are worked out, according to industry experts

In the US, most network vendors say that they intend to adopt the OSI model when it is complete. In the meantime, though, they are building their own solutions. Users must either chose a proprietary standard such as IBM's Systems Network Architecture or bet upon one of the computer network company's intermediate 'open' standards.

Another issue in computer

US market shares



'open system interconnect' standards several US network companies have adopted the Transmission Control Protocol/Internet Protocol (TCP/IP) standard developed by the US Defense Department and refined by the University of California, Berkeley.

While such companies claim to support OSI, it remains to be seen whether the US firms will ultimately switch, or whether a US/European split in computer communications standards could develop

Networking and data communications standards will be-networking is speed. Although inexpensive local area networks can link groups of personal computers to a host 'mini' or 'mainframe' computer, most lack the speed needed for large file transfers. As the power of desktop computers increases, the complexity and size of data files typically handled by these machines also grows and with it the need for high speed data communications to transfer these files.

To address the immediate needs of their customers while awaiting the development of the come increasingly important, computer industry analysts say, taking the place of current concerns over operating system and software standards in the near future. Once standards for communications between different types of computers are established, the characteristics of individual computer models become less important, they suggest.

Louise Kehoe

California

The Japanese market

A race is on to produce faster supercomputers

THE THREE big Japanese supercomputer manufacturers, NEC, Fujitsu and Hitachi, have been engaged in a frantic race over the last year to produce more and faster supercomputer models.Sounding like Formula One racing car manufacturers, the big three keep overtaking each other in speed claims.

Until a few months ago NEC's SX-2 model was the fastest supercomputer to be designed and built in Japan. The SX-2 is capable of crunching numbers at 1.3 giga-flops (billion floating point operations per second).

But now Hitachi claims that its new single processor S-820/80 model is capable of operating at 2 to 3 giga-flops. And Fujitsu says its new VP-400E model can be run at 1.7 giga-flops.

"That's like saying a Lamborghini can travel at 300mph or something," one industry analyst says. "Well, maybe it can - on a long, flat clear road with a tank full of high octane petrol and the best driver in the world."

Actual supercomputer speeds are dependent largely on the software. And the so-called top speeds are usually only sustainable for brief bursts under optimum conditions.

Supercomputers can be used for scientific and technological calculations; model making - such as for weather conditions; designing new products - anything from ICs (integrated circuits) to aeroplanes; simulations and general data analysis.

The weakness of the Japanese supercomputer industry is that of the Japanese computer industry as a whole: a lack of software. Depending on whom you talk to, there are only 20 to 60 Japanese programs for supercomputers, whereas America's Cray Research, for example, offers 450 programs.

The Ministry of International Trade and Industry (Miti) calls this dearth of programmers and programs "the soft crisis"and the worst case scenario sees Japan 0.5m programs short by the early 1990s.

The Sigma project, launched by Miti in 1985, is a software development plan. It is also an example of how the Japanese Government targets "growth" industries - when business cannot supply their needs - to ensure that Japan does not fall behind. Over 100 companies are taking part, including NTT, but half of Sigma's entire budget comes from the Government.

Foreign companies, anxious to keep up with developments in Japanese software, are also involved through their Tokyo subsidiaries - or joint ventures. IBM, Olivetti, Hewlett-Packard, Xerox, and AT&T are some of the firms.Sigma uses the Unix system V, which was originally developed by AT&T's Bell Labs, and is seen by some Japanese companies as a way to shake off their nearly total reliance on IBM-compatible software.

But if the computer is equipped with AVM (advanced virtual machine capability) it can run using different operating systems. Fujitsu's supercomputer, for example, can use Unix-based software with other types - notably IBM's.

This month, Miti says, the leading computer firms are beginning to test the Sigma OS (operating system) - OS is the master control programme that governs the operation of a computer system. And next year, Sigma will lend the OS to other computer firms in order to expand its company network.

At Tokyo University, Project Tron is trying to come up with a computer that will work with any kind of software. Some 50 Japanese companies, mindful of their "soft" dependence on the Americans overall, are working with the project.

In response to Intel and Motorola's refusal to sell Hitachi and Fujitsu designs for the new 32-bit microprocessors, the two Japanese companies are developing their own microprocessors - using Tron chips. And Matsushita and Mitsubishi are working on Tron chips - which will be the prelude to Tron computers.

Although individual investors are a dwindling breed in Japan, they still number over 17m people. And, one way or another, Japanese companies are trying to get them on line.

Comparatively speaking, at some 10m, there are few personal computers in Japan. However, it is now possible to buy stocks from Yamaichi Securities by using Famicom - the most popular of the computer games. Nomura Securities - Japan's biggest - planned to introduce its services on Famicom before it was pipped at the post by Yamaichi - and says it will probably introduce a home computing system before long.

Sony, working with Daiwa Securities, has come out with a software package on a floppy disc that makes stock charts and does portfolio analysis. Users of the program can also receive on-line real time stock price information from Daiwa.

The race is on in Japan - as elsewhere - to develop a car computer which will tell the driver what the traffic conditions are ahead, and if necessary suggest alternative routes. Fifty companies are involved in the project. But unfortunately so are two ministries: Construction and the National Policy Agency. The ministries, which have signed up more or less the same firms, are pushing different systems: magnetic and radio-wave.

Computer experts reckon that a combined system, involving gyroscopes to correct errors in magnetic readings and beacons and/or satellites will be the best.

The Ministry of Construction ran road tests on its beacon system earlier this year. And, foreign competitors note, most people involved think that the ministry can come up with a working system by the end of the year.

Nissan, one of the car firms working on the project, set up a software company with IBM earlier this year called Nissan Systems Development. The new company plans to provide systems engineering services - initially only to Nissan and group companies, flogging its wares elsewhere after it is firmly established.

AI (artificial intelligence), which somehow has never fulfilled its promise, is used quite widely in Japan as a diagnostic tool. Analysts say that the domestic market for AI will be worth Y1.6 trillion in the mid-1990s - another growth area.

But so is the Japanese computer industry. Japan produced Y3.9 trillion worth of computers and peripheral equipment last year, up almost 16 per cent over the previous year.

Lisa Martineau

Tokyo

From chrysalis to butterfly...

The universal workstation emerges

A SUBTLE SHIFT is occurring in the business use of personal computers, a shift that will demand the purchase of new products and the adoption of new skills by business pc users.

But the changes are so subtle that users will have time to absorb the skills necessary to tackle the new applications. In time, users will realise that the subtle change has culminated in the death of the chrysalis of the personal computer and the emergence of the butterfly of the workstation.

The easiest way to judge the uses to which personal computers are put in business is to look at the type and volume of software bought in the UK market to run on pcs. Software packages turn the general tool of the pc into the specific tool the user needs.

The highest proportion of software for pcs sold in the UK, by units and by value, is for accounting applications, according to the UK market-research company Context. About 26 per cent of the sales by units and 25 per cent by value in the period January to July 1987 were for accounting packages, Context survey results say.

This level of interest has been consistent for some time. It shows that the personal computer is being used by small companies as a substitute for manual accounting procedures or computer bureau-based services.

The packages are relatively low cost compared to the £1,500 or more that the business will pay for the pc hardware at an average £467, according to Context. The demand for word processing on personal computers is as steady as the demand for accounting packages. Wordprocessing software accounts for 22 per cent of the market by units.

Wordprocessing packages are bought, often along with others for other business purposes, because businesses add wordprocessing to their needs. Using the pc for wordprocessing, in many instances, is a substitute for the stand-alone typewriter, probably an electronic typewriter.

In some cases, however, the personal computer with its wordprocessing software replaces a dedicated wordprocessing system. This ensures that other business applications can be run on the wordprocessing host.

But the average price of the wordprocessing package is not as high as for the accounts package - £292 in the first seven months of the year, according to Context. This pulls the market share by value of wordprocessing packages down to 13 per cent compared to its 22 per cent unit market share.

The vendors of wordprocessing packages are mostly international companies, in competition across the globe. MicroPro, IBM and WordPerfect are the main contenders with, respectively, their WordStar, DisplayWRite and WordPerfect packages.

The package that turned the microcomputer into the businesscomputer, the spreadsheet, is well down the market sharescompared to the leading pair. Some 13 per cent of pc packages sold are for spreadsheets, the average price is £318 and the leading vendor, by far, is Lotus Development with its 1-2-3.

Ashton-Tate has a similar lead in the market for databases on pcs, one of the fastest-growing applications that is eroding the position of spreadsheets as the third most popular business pc application. In the first seven months of 1987, 11 per cent of pcpackages sold were databases; the average price was £451.

Most users mix their applications on their pc, spreading the costof hardware investment over one major application and asubsidiary one. The major application, of accounts, will have priority. In times when the hardware is not being used for thismajor application then spreadsheet work by managers orwordprocessing by secretaries is permitted.

In some cases though, the major and secondary applications arehard to tell apart because data generated by one is used constantly for another. The most common joint application is theuse of contacts in the database for wordprocessing applications.

The easiest way to handle these integrated applications is to have an integrated package that has the three traditional functions of the business pc - spreadsheet, database and wordprocessing - in one integrated package. These integrated packages accounted for seven per cent of the UK market by both value and unit in the first seven months of the year, accordingto Context. The average price was £477. The market leader in units and value is Lotus with its Symphony package.

About five per cent of personal computers are used for computer-aided design (Cad). Cad applications demand more powerful than average personal computers to handle the extra processing involved in manipulating graphics. They also require more storage and specialised screens.

Graphics applications are at the heart of the subtle changes occurring in the business use of personal computers. It is not so much Cad that will take off, if the computer industry has its way, as that the graphical representation of data and of applications has plenty of room to expand.

This kind of representation has been available in theminority personal computer architectures of Apple's Macintosh and Commodore's Amiga for some time. But increasingly the mainstream of personal computers built to the IBM PC standard and using the Intel microprocessor range, is being used as the basis forgraphical representation.

Part of the move to graphics is a reflection of the development of the desktop publishing market. Standards already exist for desktop publishing despite the fact that it accounts for only two per cent of the package sales by value and units in the first seven months of the year, according to Context.

When IBM puts its seal of approval on a sector of a market, more potential customers take an interest just because of IBM's reputation as the industry leader. As a result, a stronger shift to desktop publishing should be expected as business users realise that it can fill the gap between wordprocessing and higher-quality printing provided by professional printers.

The other subtle change takes the personal computer in anentirely different direction: as the host for communications.

One of the most lively is the use of the personal computer as a telex terminal. Just as the multi-function personal computer displaced the single-function wordprocessing system, so the multi-function personal computer is also displacing the single-function telex terminal.

There are about 109,000 telex users inthe UK, a base growing at about six per cent a year. About five per cent of all PCs in the UK were used as telex terminals, according to research by UK market-research company Romtec.

The other major application for wide-area communications is for access to electronic-message systems such as British Telecom's Telecom Gold or private networks. A market in its infancy that may grow rapidly to several thousand users in 1988 is using the PC as a fascimile machine, again by putting in communications hardware and software but also by adding a scanner and image printer.

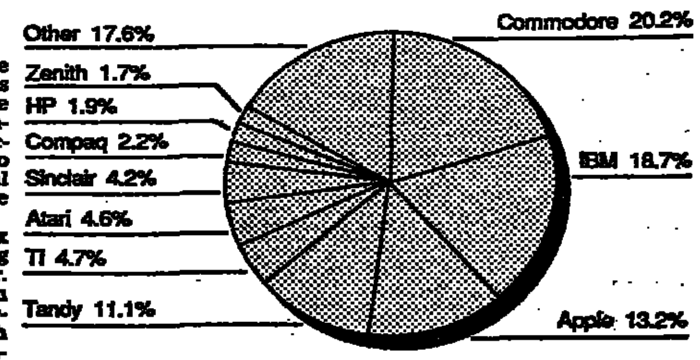
Taken together, these developing uses of the personal computer represent its emergence as the universal workstation for the office worker. Other uses will be created in time as users demand them and personal computer vendors try to keep the pot boiling with new features.

Richard Sharpe

The US PC market

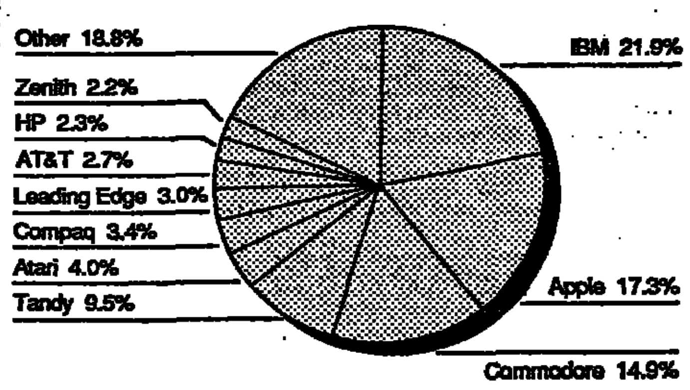
Vendor sales,1986

Installed base



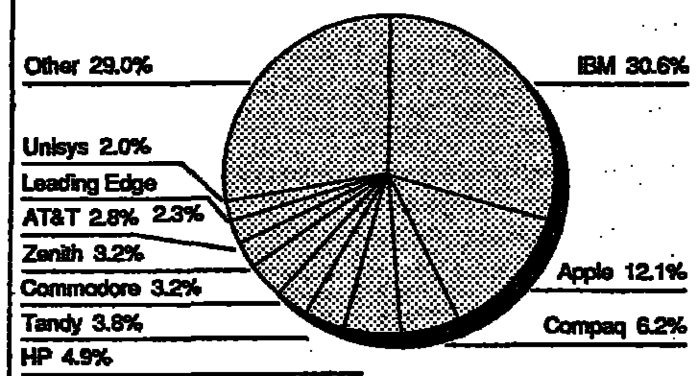
28,658,000 units

Shipments



6,365,000 units

Value of shipments



$14.2 billion

Source:IDC

Guide to the vendors

PERSONAL COMPUTER users are always, rightly, advised to select their software before the hardware. Having selected the software they are, often, equally at sea. The technical details are plain but complex. What users say they lack are the market details.

The vendors can be judged by their position in the UK marketshares for personal computer vendors. Going down the pc vendors for the first seven months of this year, according to UK market research company Context, is a useful guide to what customers are choosing, and why.

First is IBM with its two personal computing architectures:the single-application MS-DOS architecture and the multi-application OS/2 architecture. The disadvantage of using IBM is that it is the most expensive of the vendors. The advantage is that it is IBM, with all the security that the name conjures up.

In second place is Amstrad with its MS-DOS-compatible pcs.Amstrad personal computers are never bought for features, but for price. The disadvantage is that Amstrad wants to shift products and does not have the creation of a market base as its priority. The advantage is that they are low-priced.

Apple is in third place with its own architecture of personal computers in the Macintosh range. The way users interact with Macintoshs is different than in other personal computers, and in fact is a precursor of what IBM software will do later in 1988.

Compaq has built a niche for itself as the high-quality producer of IBM-compatible personal computers. The disadvantage is that Compaq will always exist within IBM's shadow, subject to the definition IBM puts on the personal computer market. The advantage is that Compaq will survive and be a credible alternative to IBM.

Tandon has built a niche for itself as the lower-priced vendor of personal computers for the corporate market. It has taken this role over from Olivetti. The disadvantage of buying Tandon is that its financial strenghth is not up to a long haul in the personal computer market. The advantage is price.

Apricot is now IBM-compatible, carving out a new niche as the IBM-compatible vender who adds more to its product. The addition this year is a local area network connection in the standard personal computer. The advantage of buying Apricot is that support for the product is local, the disadvantage is continuing concern over its financial health.

Zenith is using large US public sector orders to lower its price in European commercial markets. The advantage is price. The disadvantage of buying Zenith is that it has less than 10 per cent of the market share in the UK.

ICL is the leader in multi-user personal computers with 30 per cent of the market, according to Context. To this is added a steady stream of single-user sales to existing customers. The disadvantage of buying personal computers from ICL is that, in the world market, it has no recognised position. The advantage is that it has technical expertise enough to understand the market and assist users in it, as long as the order is big enough.

Victor's market share is growing slowly on the back of IBM compatibility. It does not have enough market-share to be a major player but has been long enough to survive.

Unisys, the product of Burroughs' takeover of Univac, has the advantage of being an established player in computer markets but has the disadvantage of little direct experience ofpersonal computer sales.

R.S.

Computer integrated manufacturing

Quest for compatability

THE COMPUTER today is an ubiquitous tool of management. Thirty years after commercial computing began to make a genuine impact on corporate administrative headquarters for payroll compilations and the like, all sorts of machines have made their appearance at every level of company activity. What has not happened up to now is a consistent way of tying them all together.

The problems of achieving these linkages are what lie at the heart of computer integrated manufacturing - and they are horrendously complex. As computers have spread throughout the companies they serve, they have been designed to do many different, specialised tasks.

Departments may have their own medium-sized machines programmed to handle their special requirements. The design office may also have a batch of powerful workstations, each capable of heavy duty number-crunching and detailed graphics.

On the shop floor, cells of production machinery may be tied together under the control of a local computer; and scattered throughout the organisation there will probably be many small personal computers, operating singly or on a local network for the benefit of a small group of workers.

The idea that all these machines could be tied together in a completely automated system has been around for many years. In theory, such a network could lead to big productivity increases as the computerised output of one department becomes automatically the electronic input of the next. It would get rid of paper. Orders would come into the company in electronic form, designs would be prepared on a computer, and instructions passed electronically to machines programmed to make them automatically.

The *ad hoc* way in which the data processing systems have been installed makes sense in economic terms. The devices to bring them together in an integrated fashion would be prohibitively expensive at present. Indeed, it is often argued that the Japanese lead over the rest of the world in production tehcnology has been achieved by avoiding starry eyed 'total' solutions in favour of a gradualist approach to installing automated plant.

Nevertheless, the existence of these varied systems underscores the technical problems of moving towards computer integrated manufacturing. The structure of the industry at present is clearly highly fragmented. Computers in *one* part of a building may have been programmed to talk to each other. But they will rarely have been instructed to communicate with other machines elsewhere in the premises.

The solution to this incompatibility issue is still some way off. What is needed in the long run is some kind of common language which will enable the different types of computer to talk to each other. This runs couner to the long-estabished traditions of the industry, in which computer manufacturers have developed their machines on the basis of proprietary operating systems.

The tide is now beginning to turn, however, as demonstrated most dramatically by Digital Equipment Corporation, the mini computer manufacturer which has gone through a period of extraordinary expansion in the last few years.

New approaches

DEC has unilaterally tackled the incompatibility question by bringing through an entire family of machines which are totally interconnectible. While not aiming for the market in the largest computers, the DEC products still span the range from desk-top PCs to large minicomputers as powerful as many small mainframes. They are built to the same architecture, usng the same operating systems and can be linked together in a network almost as easily as a telephone system.

Another approach to compatibility is centres on the development of internationally recognised standards. The idea here is to hammer out common agreements among computer manufacturers so that they will build their machines with some standardised elements to allow them to talk easily to each other.

For the computer manufacturers this idea involves both a threat and an opportunity: on he one hand, it makes it difficult for them to lock customers into their machines, because it would be perfectly possible for the clients to switch ot other products in their next purchases without running the risk of being unable to make the system work; on the other hand, if customers feel freer to choose from the best available they should also be more eager to purchase, thus expanding the total market.

The move towards some element of standardisation in the industry, through groups of manufacturers like X/Open in Europe, will take time to bear fruit in the market. In the meantime, various bodies of suppliers are vying to capture the initiative with customers.

First, there are the computer manufacturers themselves, led, inevitably, by IBM, a number of the larger companies are making a big push for the manufacturing sector, which they see as one of the big growth markets over the rest of this century.

Honeywell of the US, for example has begun to specialise in this area, developing complex systems to tackle all aspects of manufacturing; DEC is already a strong player, a long with Hewlett Packard, which makes a similarly integrated product range, and Tandem Computers, a specialist in fault tolerant parallel processing.

A second group of suppliers originates among the large electronics companies which have both data processing know-how and expertise in the communications systems which will be so important in linking together computers in the future. This body includes companies like Siemens of West Germany, or Philips of Holland, which are developing systems that they are able to test in their own factories.

Third, the machine tool producers are also trying to move in on this new sector, adding their processing skills to their traditional position as the premier suppliers to the shop floor.

Finally, there are the systems integrators, independent consultants who do not make equipment, but work out ways of assembling bought-in equipment.

At the moment it is not at all clear which, if any of these different suppliers will establish dominion in the market. Indeed, the evidence suggests that it will be difficult for any single type of supplier to vanquish the others. Manufacturing systems are so complex, and require so many different techniques, that for many years there will probably be a place in the market for a wide variety of skills.

Terry Dodsworth

A foreign exchange dealing room in the City of London: the latest information technology is vital

Information technology and financial services

Hard questions are being asked

TODAY'S financial services industry regards information technology in a quite different light from that of yesterday. It no longer believes that technological leadership can be bought and it is disappointed that technology has failed to provide it with a lasting competitive advantage.

It accepts that heavy expenditure on computer hardware and software is essential but it is beginning to ask why it is not getting better value for its money.

Speaking to a recent Financial Times conference on co-operation and competition in electronic financial services, Mr Peter Lumb, general manager of the Leeds Permanent Building Society, reproached the computer industry for its slowness in meeting his requirements: "I am concerned about the ability of the computing industry to respond to our needs," he said.

"Not in the provision of central processing units, disks, networks and computer centres - although secure ones are certainly vital - but in software development. We are still waiting for suitable software packages for the large financial organisations of today - never mind the future. We are still waiting for suitable database management systems. I am also concerned about the overall cost and this factor, in itself, will act as the driving force towards larger units."

Database management systems are of crucial importance because financial institutions world-wide are attempting to move away from their earlier, account-based files to filing systems which place the customer at the centre.

The problem is that it becomes very difficult - or at least very expensive - to build such systems for an organisation with more than two million accounts. Without such systems, however, financial institutions will not be able to make use of their most potent marketing tool - the vast store of data they hold on their customers. As Mr Jacques De Keyser of the Generale Bank, Brussels, Belgium says: "In our service economy, information technology is becoming the fourth basic banking function."

Among the more dramatic events in electronic banking in the past few months which have illustrated this new realism have been:

- The banks' world-wide messaging system, Swift, at last gave its members a date - 1988 - for the cutover from the existing Swift I to the advanced, distributed Swift II system.

Swift is a good example of a technological development where banks have collaborated to share costs which would have proved too expensive for any single bank. A speedy, secure system for sending payments messages around the globe, it was implemented in mid-1970s technology. Now it is beginning to run out of capacity.

There have been both technological and managerial problems with the development of Swift II which have caused the organisation to delay the cutover several times. Although the existing capacity is expected to hold out, the banks will be relieved that a date for cutover has finally been set.

- Midland Bank decided to abandon the development of a massive suite of banking software being implemented for it by Hogan Systems of the US.

The decision was controversial for a number of reasons. First, Midland is going through a systematic transformation in commercial and systems terms. The systems side of the operation is being masterminded by Mr Gene Lockhart, appointed chief executive, information technology, at the beginning of the year.

Second, Hogan, a well-regarded banking software house in the US, had seen the Midland contract as its first big breakthrough in Europe and a chance to pioneer the development of systems which would be the basis of its banking software of the future. It already had a marketing agreement with IBM, the world's largest computer manufacturer, for its existing software.

The new suite of programs would have been called "Megabank". Mr Lockhart, pointing out that the contract with Hogan had been signed before he took over, explained that Megabank was not the way he wanted the bank's information technology to develop.

- EftPos UK, the organisation set up by the UK clearing banks to plan and establish a national cashless shopping system, announced it had let some £13m worth of contracts to vendors for the essential hardware and software, the first concrete signs of the realisation of a vision of paying with plastic rather than cash or cheques now well over 15 years old.

The contracts are an object lesson in the way financial institutions think about technology today. The main processing computers will be provided by IBM, but they will not be the conventional number crunchers that it supplies to all the big banks for back office accounting. Instead, they will be System/SO super minicomputers, microprocessor based and "fault tolerant", made by the US company Stratus and badge-labelled by IBM.

EftPos UK has also bought Tandem fault-tolerant computers so that banks which wish to use these machines to connect to the system can carry out software testing.

The electronic connections between shops, the EftPos processing centres, the banks and the plastic card issuers, will be British Telecom's high-speed packet switched network. The software will be the well-proven Base-24 from Applied Communications of Omaha, greatly modified to meet the requirements of the UK system. Base-24 is the most popular financial transaction processing available.

CAP, the UK software house, will provide additional software development and long-term support to the project, including software for the participating institutions. Plessey Crypto of the UK will develop the all-important encryption systems which will ensure that financial messages passing through the network can be neither read nor altered.

The terminals - the devices which will sit on retailers' counters, "read" the magnetic stripe on the plastic cards and transmit and receive messages across the network - will be provided in the first instance by Ericsson UK (a Swedish company) and Omron UK (Japanese).

Note the important features: the central hardware comes from the world's most stable manufacturer and has a reputation for integrity and reliability. The software, again, is well tried and tested although it will be modified for UK conditions. Security is seen as critical.

So the technological risk has been minimised. Months of negotiations should ensure that each bank has a fair chance to build a competitive edge on top of this co-operative foundation. Financial institutions are learning the hard way about information technology, but they are learning.

Alan Cane

Automation as an agent for change in retailing and marketing

New systems provide the competitive edge

ONE of the last independent bastions of British retailing - *the corner grocery store* - has finally fallen to computerisation.

For *many years these small*, family-run businesses had resisted the approaches of electronic equipment suppliers offering automatic weighing machines and sleek point-of-sale cash registers.

But now, in the interests of efficiency, better stock control and the need to defend profit margins, these small businesses are joining the ranks of electronic retailers.

One of the interesting innovators in this retail area is the Spar-brand franchise of retailers James Hall of Preston, Lancashire.

Their Telspar Viewdata Service, developed by the company, greatly facilitates the running of small grocery businesses. The system links local shops directly to a programmed computer which handles stock re-orders, pricing, delivery and accounting details.

Telspar, which took two years and *£250,000 to develop* the computer program, gives the local Spar store manager an instant link with the wholesale supplier. This link via a visual display unit and the telephone system can deal with up to 24 retailers' orders at the same time and save the individual local store owner perhaps eight hours a week in what would have previously been used for clerical work.

Spar grocers have also greatly improved their stock ordering patterns. Shops have been able to narrow down their stock inventories from 2,400 lines to 1,600, and saving on stock investment by up to 10 per cent.

This example of automation as an agent for change highlights some of the fundamental changes in the marketplace. Arthur Andersen, the London management consultants, point out that, in the past, retailing was a relatively *simple business*. Most stores were small and the stock range was limited. Information systems were simple because store management held most of the figures in their heads. Today's environment is much more complex.

"There has been a move towards specialisation. Transaction volumes and turnover are far greater and the size of the major retail companies has increased significantly. All these *factors* are *compelling* companies to re-examine their marketing *strategies* and *store* management techniques," says the consultancy.

Four types of systems are identified as vital to the *successfully* support *today's* managers in retailing. The first are transaction systems, such as point-of-sale (POS) equipment *which handles data collection* and assists employees in perform ing their jobs at the cash point. POS is also becoming commonplace in the support of central distribution operations.

The second type of system is essential *for stores* seeking to carve out a market niche and *win customers to increase com*petitive advantage - an example would be "frequent-buyer programmes" similar to those operated by some airlines. By using a *bar-coded* membership card which can be recognised by *electronic scanners, customers'* purchases can be recorded and shoppers rewarded on the basis of achieving certain spending goals.

The third set of systems are information facilities which can *be used by store management to* monitor the achievement of objectives. Transaction systems are linked to information systems to provide store performance results - not only to head office, but also to the store manager. *With these systems, local* managers can take direct action *to improve store performance.*

The fourth type of systems are host retail management systems which provide corporate management with store-level information *and also control* the store automation system.

These *management systems* can be composed of several "*merchandising* workbenches" to assist buyers in developing store-based merchandising profiles as well as reviewing results and making changes.

"Operation workbenches" can support store operations by reviewing *daily* and weekly results, for example. It is important to achieve the right degree of balance between central and local control, adds Arthur Andersen.

Another key principle is seen when organisations plan to automate their operations (and are *starting from* a very *low* base of computerisation). Then applications must not be merely implemented "one at a time" - since it is important to define the core set of applications which makes store automation *beneficial in the long-term*. With the plethora of information technology systems on offer today, choosing the wrong system can prove very costly.

Many retailers rely on computer service companies. One of the UK's *larger services suppliers* is Centre-File, part of the National Westminster Bank group. With a turnover of more than £40m and over 4,000 customers, Centre-File has the resources of not only a major com*puter bureau* and *supplier of* payroll services, but also of *computer-based solutions to* business problems.

The company's computers automatically collect details of each day's routine cash, stock and sales information from clients' tills in a retail inventory management service. The system can also, for example fol*low up instalment accounts*, including hire purchase, rental, leasing, personal loans and revolving credit.

The major issue facing the retailer and the information technology strategist is to define a system that will stand the pressures of time and provide an integrated operation.

'With the plethora of information technology systems on offer to retailers today, choosing the wrong system can prove very costly.'

As regards systems for small *shops,KPG Computer Systems* says that "the market is changing almost as fast as it is growing, with even thge larger retailers looking for the flexibility and price-performance that only a PC-based point of sale system can provide."

Mr Lew Gray of KPG says that the numerous, smaller indepenent retail sector now represents *a potentially vast market*. Analysts have recently valued the UK market for these retailing systems at around £800m over the next four years, he says.

Such figures must also be en*couraging to the major players* in the retail industry, such as IBM, NCR and ICL. Traditionally, they have concentrated on the larger supermarkets and department stores - essentially, those with a large number of *POS terminals in each store*. An example of a smaller but grow*ing company using computers in* retailing is Bike UK, an independent London chain with five shops and turnover of £1.5m. The company uses the KPG Shop-Tech system to provide stock control the POS data capture. The *system operates* operates on a 50 megabyte ICL Quattro personal computer to operate KPG stock-control and accounting packages. Each store is connected by modem and dial-up lines.

Initially, KPG entered 2,000 main stock lines on to the computer at the South London head office, but eventually this will be built up to 8,000, all identified by individual codes.

An example of a far larger retailer which has *benefited from* successful computer applications is Argos, with a turnover of £500m. In all,the company uses 1,000 Epos terminals throughout its 150 stores.

These systems are produced by Smart Terminals, headed by Richard MacMillan, using 160 Kode CP 2000 *series micro* computers. Mr MacMillan believes *that one of the* main factors in Argos' success in the market is due to its wealth of management information.

There are between five and seven tills in a *typical* Argos catalogue showroom, while the fiver newer *Argos Superstores* have as many as 23 cash registers. *These latter outlets* generate too much traffic to hold stock data in the tills, so the files reside on the CP 2000 and are accessed by the tills over an inter-register network, coupled to Kode Computers' implementation *of* Digital Research's DR-Net network.

One of the busy retail areas that has derived great benefit from user-friendly POS systems is the fashion store *sector* where there are fast-changing *stock-lines*.

Typical equipment in this area would include the Autis system from Retail Computing. Another is BOS/Retailer from Software Support Products of Dorset. The system can handle *both cash and credit transac*tions at the same till, automatically update stock and provide a daily or monthly sales analysis.

A very useful and versatile hand-held unit for "price-code *look-up*" and Chargecard validation at the point-of-sale is the Pzion which is being successfully used by Marks and Spencers at 275 stores in the UK.

Eventually, 60 of the company's smaller stores will use *Pzion to capture sales* information, while 215 of the the larger stores *will* use *electronic* point-of-sale systems.

In marketing and direct mail sectors there *is* a growing interest in computerised list segmentation. This is being refined to link in such elements as advertising responses and telemarketing to a computer database *in such a way that a market* can be continuously "mined" for *business*.

"Just as a computer should be a trans-curricular tool in education, so it can be applied to fine-tune most business activities," says Martin Shields, an ex-IBM executive who founded *Merit Direct*, a database marketing company at Stratford-on-Avon.

The secret lies in flexible but focused programming. Once the gearing is right in software terms, the service capability is *almost limitless*, he says.

Database marketing was pioneered in-house by consumer companies wishing to make better use of an existing "customer base." Merit Direct takes the process a stage further "by using the computer pro-actively to chip away at markets on a con*tinuing* basis."

In the past, many sales contacts with potential customers have been lost or stored only only inaccessible cards, whereas a computer-linked telemarketing or direct mail campaign can now pinpoint areas *most* likely to respond with new sales.

Anthony Dutton

Laser-scan point-of-sale terminal

In West Germany, a shop assistant checks-out goods using a 'Nixdorf' laser-scan cash-point system which also helps to provide information on store performance and aid accurate re-stocking of goods.

Menzies' new network

MORE THAN £3m worth of NCR Tower data-processing systems have been installed by John Menzies, the UK wholesale newsagents and retail stores group.

Menzies handles around 1,000 different publications daily and supplies 13,000 newsagent customers nationwide. The company's new network system includes the entire Tower range - the Tower XP, the MiniTower and the Tower 32, which are all Unix-based systems.

The equipment is being used in the Menzies network to high street retail outlets and at 86 depots throughout the UK for merchandise management, stock control, goods-receiving and other "back office" functions.

Menzies has developed its own retail software at its headquarters in *Edinburgh*, using the fourth generation language, Sculptor, operating under Unix.

The systems uses Printronix heavy-duty P300 and P600 line matrix printers from Pragma.

Anthony Dutton

Moves to upgrade systems

AROUND $1bn a year is now being spent on conversion projects for manufacturing and software operating systems, according to the French-based *international software company*, CAP Gemini Sogeti. This figure represents around *3% of the* total software services market worldwide.

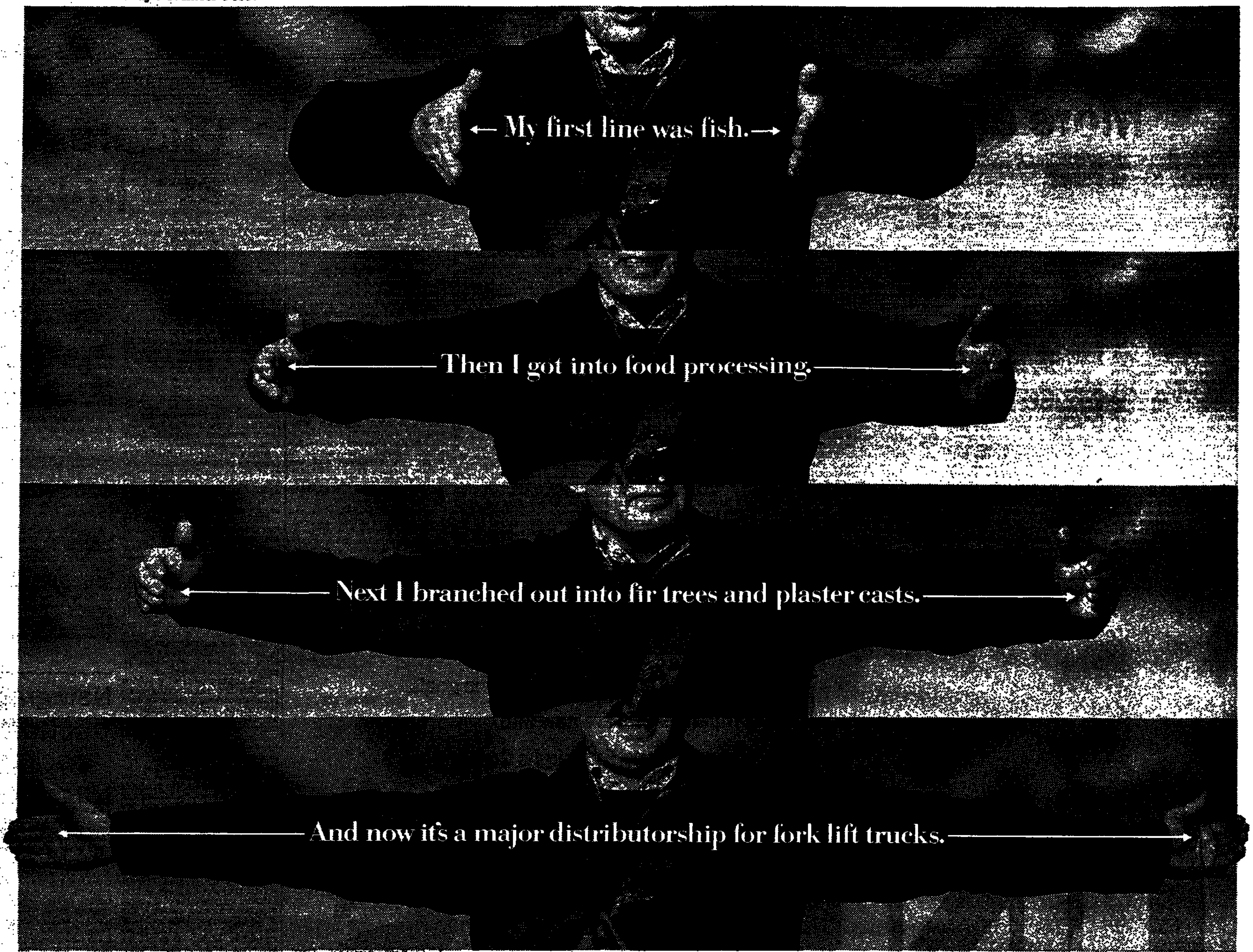
The pressure to convert, either for up-grading to a new operating *system or for total* re-equipment, is usually due to the need to maintain a competitive edge.

One of the companies involved in the complex task of transferring data for conversion *operations is CGS of Paris* which uses tools developed in the US and refined at its Conversion Support Centre in Munich.

According to SGS, which has carried out more than 1,200 con*version projects*, the average DOS to MVS *software conver*sion costs around £200,000, but a comparable figure when a transfer involves conversion from one type of hardware to another is around £500,000.

The UK arm of CGS, which is *based at West Drayton near* Heathrow, has carried out a major conversion project for British Gas. This was thought to be the largest-ever Sperry to IBM conversion exercise, involving 2,500 application programs, 50 *systems and 1.75m lines of code.*

To *forecast* time-scales involved and to accurately estimate costs, the company used the CGS Infolib tool to evaluate each conversion unit according to its size and complexity. This included *programs, sub-rou*tines, screens, file layouts and job-control language. The equipment also estimated the number of man hours required to convert each unit.



A fisherman's tale.

(Or how IBM helped John Hughes deal with rapid expansion).

If you run a small business, you'll realise that once your company starts to grow, so does the amount of tedious administrative work.

In the case of John Hughes, his company, the Hughes Food Group, has had a spectacular growth rate. In two years it has expanded to 24 companies, its activities ranging from cold storage of fish, fir trees and plaster casts to industrial machinery manufacture.

With such a rapid growth rate, a personal computing system was essential.

John Hughes found IBM an "excellent choice." In his opinion they not only provide the most appropriate range of equipment, they also offer all the back-up and support the company needs.

More importantly they offer long term security since, in John's words, "They'll still be around for years to come."

For these reasons, he spoke to his local IBM Authorised Dealer, and together they developed the most suitable system for his group.

Firstly, the computerised accounting system took care of time-consuming work such as stock control, invoicing, payroll and VAT returns, giving John more time for more important things like investigating new markets.

Secondly, as he says, "you can't grow at a fast rate unless you've got overall control," and with his computer system, he has central financial control of all his companies from Aberdeen to Bristol.

John admits that he's not particularly interested in the technicalities of computers. He wants a reliable system that can get on with the job without any fuss, so his dealer keeps in constant contact.

Each time John acquires a new company, the dealer goes there to install a computer system that is compatible with the one at head office.

So no matter how fast John Hughes' group grows, IBM will always be there to help him.

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COMPUTERS IN BUSINESS 8

Boris Sedacca describes advances in computerised personnel information systems

More aids to manpower planning

DEPENDING ON which surveys one believes, computerised personnel systems are or are not taking off. According to the 1987 Computers in Personnel survey, carried out by the Institute of Manpower Studies (IMS) and the Institute of Personnel Management (IPM), the number of organisations with a Computerised Personnel Information System (CPIS) has doubled over the last five years.

Management Science America (MSA) on the other hand, which claims to be the world's leading supplier of IBM mainframe applications software, finds that UK companies are slow to adopt computers for human resource-management. MSA's survey, compiled from the responses of 150 companies using IBM computers in the UK and Ireland, revealed that almost a quarter still use manual systems for maintaining personnel records, and some 15 percent had not computerised pensions. One of the primary reasons why companies use computers, and software packages, in particular, for managing human resources is to accomodate statutory changes. This year has seen the introduction of Statutory Maternity Pay and there will be further issues affecting human resource management arising from the Finance Bill. Packaged software, says MSA, helps users to absorb such operational changes quickly and efficiently. Statutory changes no longer affect only an organisation's payroll, they also involve more personnel administration than ever before. The biggest discrepancy between MSA's and IMS/IPM's surveys lies in their assessments of the use of personnel systems in manufacturing. According to MSA, manufacturing companies, which constitute 45 of its respondents lag behind. Twenty-five percent still use manual systems for personnel and 12 percent manual payroll systems.

According to the IMS/IPM survey however, the manufacturing sector in particular is showing a growth in the use of CPIS - 34 percent came from this sector despite the fact that only 24 percent of the UK workforce is employed in manufacturing. There are clear indications that more systems are now being bought than ever before and it may be that people are no longer keeping the same systems for long periods of time, says the survey.

Mr Colin Richards-Carpenter, associate director of the IMS, conducted the survey. He believes the growth in the use of CPIS is actually considerably faster than that indicated by the survey because statistics collected in the base year of 1982 were distorted by the problem of defining a CPIS.

At that time many organisations having a computerised payroll systems with some enquiry facility claimed to have a CPIS. Today's personnel profession has a much clearer view of what a CPIS is.

"CPIS is becoming increasingly important in its own right. No sophisticated company can regard it as otherwise," says Mr Richards- Carpenter. One interesting finding of the survey was that the proportion of mainframe computer usage (MSA's main target) has declined from 76 percent in 1982 to 46 percent in 1987, while mini and microcomputers have grown from five and four percent to 15 and 33 percent respectively.

"Personnel departments are no longer prepared to wait three to four years for data processing to get around to putting personnel administration onto the mainframe," he adds.

"For larger companies, they will usually put their personnel systems onto minis because there is a limit to the number of micros they can network together. "The driving force for personnel systems comes from the large companies, but there is a trend for smaller organisations to become more sophisticated in their personnel administration requirements. They get the benefit of being able to buy in the package market."

'Today's systems have really come into their own from the days when they were regarded as merely adjuncts to payroll'

Given time and patience, and most importantly, skilled computer staff - something which data processing managers always complain is always in short supply - companies can implement their own personnel systems using modern software tools like database management systems and fourth generation languages.

Like "Alice through the Looking Glass", they will probably find that they are running to stay in the same place, because users (including personnel staff) are frequently in the habit of not defining their requirements precisely and logically enough, and of changing their minds, making things up as they go along, adding new features, and so on.

Using a package avoids the need to design a system from scratch, and puts the responsibility for maintenance and updates on the shoulders of the package vendor. Personnel systems have really come into their own from the days when they were regarded as merely an adjunct to payroll.

First and foremost, employees have to be paid. However, modern organisations have known for some that pay is not everything in job satisfaction, although they have taken some time getting round to putting that principle into practice. Personnel systems are not only growing in size and functionality.

They are also becoming increasingly integrated with payroll and pensions systems into what the Americans call "human resource management" systems. This is a term which some of their British counterparts find slightly less distasteful than "liveware" - used to describe that part of a computer system which is neither hardware nor software.

In other words, people. Human resource management systems provide organisations with facilities such absence control, applicant tracking, job evaluation, manpower planning, employee relations and health and safety monitoring. Absenteeism, for example, can cost employers millions of pounds per year. A decrease of one or two percent can show a significant cost saving. An absence control facility can analyse the data within the human resource management system to highlight specific problem areas and to identify potential grievances or disciplinary situations before they arise.

"Two or three years ago, the first level of interest for 90% of our business in our human resource management system was for payroll systems," says Mr David Stallion, managing director of Cyborg Systems UK.

"Nowadays, the lead product is personnel management for about half the cases. The trend is similar in the US where there are legislative requirements for state reporting on the employment of minority groups for racial monitoring.

"It all fits in with their policy of positive discrimination. Companies have to employ certain proportions of people from minorities, and not just in the boiler room either. This imposes complex reporting requirements on companies there.

"The emphasis is different in the UK. We really had to go back to the drawing board when we launched the product here."

The predominant requirement in the UK is for a basic record-keeping function with enquiry features to provide facilities like absence control, position control (particularly in larger organisations and the public sector), salary administration/history, skill administration/history, and manpower planning.

"Manpower planning is the toughest bit to define," he adds. "You can talk to five different people within the same organisation and they will give different answers as to what they mean by manpower planning."

Computer graphics

Pictures - at a price

THE STAGE is set for a massive increase in the graphical presentation of information through computer systems to the business user. But only success in the market will tell whether business users of a whole range of computer products will be willing to pay for graphics.

Presenting information in pictures instead of data or text was given IBM's seal of approval in the personal computer market by the announcement in April of a Presentation Manager software package which can manipulate graphics for the user. This increased interest in graphics by IBM was underlines by the launch of high resolution graphics displays for the Personal System/2 personal computer from IBM at the same time.

Only a week before, Apple, the company IBM displaced as leader of the personal computer market, launched its new generation of Macintosh personal computers with heavy emphasis on their colour graphics capabilities.

Although personal computers may be the most visible part of the computer industry to the business-user, there are at least four other sectors of the computer industry where graphics are becoming increasingly important. Over the past six months, significant product announcements in each area have brought down the cost of using graphics to extend their appeal among potential users. As a result, marketing plans are being laid today to encourage more users across from text-based computing to graphics-based computing.

The cutting edge of graphics remains the engineering computer-aided design market where specialised graphics facilities provide high-resolution, high-definition systems.

Silicon Graphics, a leader in the field of specialised graphics processors, has already upgraded its product range this year by providing three times the power of previous models. Its products are aimed at solid modelling and simulation applications and are priced at £60,000 to begin with, running under the Unix operating system.

This increase in graphics processing power in the engineering sphere is reflected in the launch of specialised graphics processors or printed circuit boards that can be plugged into existing systems. One of the most popular computer systems, the Digital Equipment range, based on the Q-Bus for plugging in peripherals, is one area where there has been significent product launches in the past six months.

For example, Dowty Computer Graphic's £6,500 Supervisor CQG plugs into the Q-Bus. System developers may make products like these and build graphics systems for re-sale to business-users by including commercial packages.

The third user-area is for graphics in the boardroom or on the desks of more senior managers. Complete executive reporting systems are being sold by Comshare and Metapraxis, for example. Graphics are vital to these systems. Comshare's Commander Executive Information System (EIS), just launched in the UK, is built around high quality graphics.

The traditional data processing environment, based on the mainframe, is also experiencing development of the graphics approach. IBM's Graphical Data Display Manager, (GDDM), a mainframe-based graphics package for business-users, is providing graphics on specialised terminals to increasing numbers of executives.

An updated version of GDDM, developed at IBM's software development centre in Hursley, Winchester, was shipped to customers worldwide in June and July. The new version includes enhanced printing of images.

Providing data in graphical form costs more than providing it in textual or tabular form because of the extra investment in specialised screens, printers and software. Businesses that were willing to pay for these facilities, such as the oil companies, have been using business graphics in their operational systems for some time.

Graphics will not come cheap to the business-user and there is no concrete indication that the increased range of graphics products are yet within the budget of sufficient numbers of users to cause the market to take off for another two years. But the computer industry is going to do all it can to make sure that the business graphics sector takes off sooner rather than later.

Richard Sharpe

New graphic software package

A NEW graphics software package to help meet the growing demand from managers for better communications support materials will be launched in Europe early next year by Kinetic of Louisville in the US.

The PC-based Kinetic Graphics System is a flexible but powerful tool for the production of a wide range of presentation materials - from simple dot-matrix printed pages to plotter, laser printer and coloured thermal-printed hard-copy or overhead transparencies as well as 4,000-line resolution 35mm slides and larger format film transparencies.

As many as 255 colour tones are available in this easy-to-use system, claims Kinetic. More than 400 companies from the "Fortune 500" list of companies in the US have helped to develop the product which was evaluated on 468 'beta-test' sites during a nine-month period last year.

The full software suite will cost around £900 in the UK. Production facilities have been established at a Kinetic Presentation Centre at High Wycombe, Bucks. (More details are available from John Vale on 0494-444.7871).

Emerging standards in software and hardware

A difficult process

HISTORY SHOWS that all technologies start life in a number of competing forms. As the technology develops and faces the demands of the market, one usually emerges as the dominant form. In the early days of television, for example, there were several approaches to the technology. But one emerged as the dominant "standard."

In the early 1970s, several audio-cassette tape formats vied for dominance. But only one, the Philips Compact Cassette, emerged as a worldwide "standard." And, more recently, the same process has occurred with video-tape technology, with the VHS format dominating all others.

Computer technology is no exception and, in some areas, standard forms have grown to dominate. The most recent and the most spectacular example of the emergence of a dominant standard form is the IBM Personal Computer (PC).

Launched in 1981, the IBM PC quickly became the system for serious personal computing and is now as entrenched as any technology standard can be.

Before the IBM PC, the same process occurred with large mainframe systems. Once again IBM's technology dominated. The 360 mainframe design became a *de facto* standard for large-scale data processing systems.

Not all standards emanate from manufacturers, however. Software standards in the computer industry have evolved partly as a result of manufacturer's plans. But they have also evolved from the efforts of standards organisations. The American National Standards Institute (ANSI) and the International Standards Organisation (ISO) have played, and continue to play, an important part in the evolution of software standards.

There is, inevitably, a conflict between the two. Manufacturers are keen to promote the technology that they have invested in, while the standards organisations such as ANSI and ISO have the unenviable task of reconciling the vested interests of manufacturers, the interests of software suppliers and the interests of the end-user.

Software standards are often a compromise between what is technologically desirable and what stems from vested interests

This means that software standards are often compromises between what is technologically desirable and what stems from vested interests. Nevertheless, software standards continue to grow more important as computing spreads to every corner of commerce.

Mr Geoff Morris, president and chief executive of X/Open, says that software standards are crucial to the development and expansion of the whole computer industry.

"If we can free the industry with standards, we can give the user an opportunity to get involved.

"There is an enormous pent-up demand for computing and this will only be released if we can successfully promote open system standards," says Mr Morris.

X/Open was set up by a group of international computer manufacturers to promote the cause of open systems standards. These are a set of standards, currently being evolved, which will allow software to run on any computer that adheres to them.

The main focus of X/Open's efforts is the area between small personal computing systems and large mainframes. Mr Morris sees this as the area with the most potential both as an untapped market for the industry and one where standards are still under-developed.

"The penetration of the market for computerised workstations, a key part of the middle area of computing, is still only about 10 per cent. If this market can be opened up, there is an excellent opportunity for the industry," he says.

The central plank of X/Open's strategy is to define what it calls a "common applications environment." When complete, this will provide an interface between hardware from different manufacturers and applications software developed either by users or by the software industry.

But evolving standards is a slow and difficult process. X/Open is committed to accommodating standards laid down by ANSI and ISO, in addition to those *de facto* standards which emerge from the marketplace.

The single most pressing problem which X/Open faces is time - because, while it goes through the necessarily slow process of negotiation and reconciliation with the many vested interests it must deal with, the industry moves on and produces its own "working standards."

X/Open must also cope with the dominant position of IBM in the industry. IBM has, so far, not joined the X/Open movement, although Morris believes that IBM is a supporter of open systems.

"I think IBM will be persuaded to join as a result of the emergence of an open system standard," he says. Not everyone agrees with this view and there are many software companies which see IBM making the running for standards.

IBM is poised to extend its dominance of software standards in the database management systems software market. Its SQL programming language for accessing databases has been widely-adopted by the software industry.

Mr Stuart Walsh, managing director of Management Science of America (MSA) in the UK, sees a bleak future for other suppliers of database software as IBM gears up to promote its DB2 database.

"The evidence we have seen is that no one is buying database systems at the moment. They are waiting for IBM's DB2. The results of some of the database suppliers bear this out," says Mr Walsh. "The most common question we get asked is:'Do you support DB2 and SQL?'"

Mr Walsh adds that MSA's customers are increasingly moving to IBM database software at the expense of third-party suppliers. This could mean that IBM will dominate yet another area of the industry and its DB2 database will emerge as a *de facto* software standard.

While this will achieve the desired aim of uniformity, it will not be welcomed by other suppliers who claim that their technology is superior to IBM's. But then, standards do not necessarily reflect the best of technology. They are only the best compromise.

Philip Manchester

David Firnberg:"Despite the problems, there is a significant level of interest in information technology in British boardrooms."

Suppliers 'fail to meet needs of top managers'

THE COMPUTER industry, including suppliers and data processing specialists, is failing to deliver what the UK's top managers want from information technology, says a new report.

What is lacking is an appreciation of the way managers really work - "the chief obstacles to the more effective use of information technolgy (IT) are human and organisational, rather than technical," concludes the Government-sponsored report, "Top Executives and IT - Disappointed Expectations," published by the IT consultancy, Eosys.

Typical of the statements from managers who were questioned were: "Time comes in short slices and there is no time to fight the technology...IT needs simplification before it will gain widespread acceptance at senior level."

The two-part study, backed by the Department of Trade's information technology awareness programme, probes the attitudes of senior managers towards technology.

An initial questionaire,completed by 107 executives, the majority of whom were chairmen and chief executiutives of 300 of the UK's leading companies, was followed by 19 in-depth interviews with managers, conducted by Mr David Firnberg, managing director of Eosys and formely president of the British Computer Society and director of the National Computing Centre.

The managers who were interviewed had "quite well-defined requirements and some were even able to present a priority list - but only a few expected these requirements to be met in the near future," says Mr Firnberg.

This view was not so much because the technology could not deliver what they wanted, as in most cases their requirements were not particularly demanding, but because of the constraints of other people. These arose for three reasons:

□ Firstly, there was the problem of interacting through the system with others - this meant that everyone needed to be conscientious users of the system.

□ Secondly, many of the managers interviewed were strongly aware of the amount of work and the cost associated with creating and maintaining a database or other information source.

□ Finally, there was the considerable disillusion about the ability of DP departments to understand and deliver reasonably quickly what was wanted. But the report nonetheless shows "a continuing significant level of interest in IT in British boardrooms."

Despite certain problems with capitalising on the full benefits of technology, all but one of the survey respondents - users and non-users - continued to regard information technology as vital to the future of their organisations.

Michael Wiltshire

Input and output of data: fact and fantasy about voice and vision systems

No simple solutions

A GOVERNMENT-BACKED research project currently being undertaken in the UK has set out to design a computer-based system which can answer a simple telephone enquiry, such as 'When is the last train to Waterloo tonight?'

The computer should be able to separate the words, understand the meaning of the question, find the answer and then speak a synthesised response '11.05 pm'.

The difficulties that these researchers are encountering demonstrates a fundamental limitation in the way computers, at present, are able to interact with man, or indeed, the outside world - they need to have data and logical inferences carefully set out and, to some extent, pre-digested for them. Fluent human speech, with its vague meanings, unclear pronunciations and half formed logical inferences, is a long way from the simple logical instructions which are usually keyed in by computer programmers.

It is not just in the field of language that computers have extreme difficulty in understanding concepts and images that present no difficulty to humans. A special computer vision recognition system, for example, can recognise a shape - often at high speed - by matching the images with templates in its memory. It cannot, however, identify, digest or analyse objects which it has not previously been taught to recognise.

The problem of how to give computers the ability to recognise and understand aural and visual patterns has become a central pre-occupation of machine intelligence researchers in Japan, the US and Europe.

Japan, for example, has begun work on what must be one of the most ambitious research projects in any field of science - the development of of a machine which can instantaneously translate spoken sentences from one language to another.

Although new input devices have flooded onto the market in recent years, very few significant breakthroughs have been made in this field. Most of the advances have resulted from cheaper electronics and more advanced software techniques. As Bill Adaway, managing director of vision system specialist Computer recognition Systems put it, 'This is not an area where one would expect a sudden breakthrough to occur - hard slog over the years leads to decimal point improvements.'

It is no coincidence that US market analysts predicted huge growth markets for both vision and voice systems in the early 1980s, only to see both the take-up of both technologies crawl along at a decimal point pace.

Optical character recognition (OCR) is one input technology which disappointed the investors. Despite the fact that the technology appeared to be well proven and understood, large numbers of buyers were not forthcoming. The reason, as Mr Adaway explained, is that 'when you read text with a computer you are competing against millions of years of evolution. However much you spend, you can't get the accuracy.'

Alan Howard, managing director of OCR specialists, Kurzweil, believes that improvements have now been made over earlier systems.

'Original OCR machines depended upon having very stylised typefaces, and they were very sensitive to any deviation. They couldn't tolerate skew, poor contrast or variation of line spacing. The characters themselves were critical.'

Kurwell now offers a PC-based system, for £8,000, using more powerful processing and advances in software engineering.

Rather than trying to match characters against an image held in memory, it recognises shapes such as loops or descending lines. In this way it is not limited to reading particular typefaces.

The system also matches characters against a 40,000-word dictionary so that if there is any doubt a context can be checked. While this system gives accuracy figures in the high nineties, depending upon the quality of the text, the possibility of error still means a human operator must be involved, limiting its usefulness in critical applications.

Along with OCR, reliable voice-driven word processing also promises to revolutionise the office. Earlier this year IBM demonstrated a personal computer-controlled system which could understand a vocabularly of 20,000 words with an accuracy rate of above 95%, as long as the system has been trained to understand the speaker's voice and the operator articulates each word clearly.

However, as Mr Adaway pointed out in relation to visual recognition, recognising the first 95% is the easy part. Jeremy Peckham, manager for speech and language applications with the systems house, Logica, believes effective speech-driven word processing to be some way off.

'There is little doubt some suppliers will produce early systems in the next five to ten years. But I think it will be many more years before anyone has a device you can speak fluently to."

He adds that a word processor which actually understands the meaning of the words will come several decades later, if at all. One problem with available speech-driven devices is that they are not 'speaker-independent' - the operator has to speak in the words in order to 'train' the system.

Clearly it can be a restriction if an operator has to articulate several thousand words, several times, before real work can begin.

For all these problems, industrial applications of both vision and voice systems are now common and becoming increasingly popular. This is because they are usually used for simple, repetitive tasks such as inspection and quality control. For example, a vision system can be programmed to recognise a faulty and a perfect part and to differentiate between them.

Similarly a voice system can be trained to understand simple words such as 'Rear offside door scratched'. Logica has implemented systems with 200-300 words which are used effectively in industry.

By comparison with the input of data, output is a relatively trivial task. Chips and tapes can be used to synthesise human syllables, words or sentences, while the abilities of printers and video screens is well-known. There is, however, work to be done. Research has shown that humans concentrate on the way machines speak and consequently retain less information.

Andrew Lawrence

Data storage and optical disk technology

Still at an early stage

IF A group of the world's leading computer scientists had sat down together 15 years ago and drawn up a list of technological breakthroughs achievable before the next century, optical disk storage would have featured high on the list.

For many years it has been viewed as the most likely successor to magnetic disk storage, a technology which some feel is nearing its practical limitations. The importance of optical technology lies in the fact that it can be used to store huge volumes of information on compact, rugged platters.

A floppy disk for a personal computer, for example, might hold up to a megabyte, while a fixed magnetic disk might hold 40 megabytes. By comparison, optical devices already on the market store anything between 100 and 2,000 megabytes.

Optical disks also have longevity. Scientists estimate that the lifetime of the disks is at least 25 years and may be longer. In contrast, users of magnetic media are usually advised to move their data on to new tapes and disks every few years in case of corruption.

The promise of optical storage has inspired the major electronics corporations around to world to invest heavily in research and development - some estimates say that $4,000bn has been spent so far. In the case of the recently revived Storage Technology of the US, the expenditure was a key factor in bringing it to its knees in the early 1980s. Since then Philips, Hitachi, Control Data, IBM, Sony and others have all entered the market.

The first widespread application for optical storage products is already reaching maturity in the form of the compact disk music-player. But although the home entertainment market is important, it is as a data storage medium that optical holds most potential promise and presents the most demanding technical challenges. The high research budgets accorded to optical storage have largely been targetted at solving a handful of problems which are seriously impeding its progress in the computer market.

Optical disk products fall into three distinct categories. The CD-Rom (compact disk - read only memory), like a record, is pre-recorded with permanent information by distributors and publishers and sold for perhaps £10 to £30 a disk. The Post Office, for example, will supply a CD-Rom with all 23m names and addresses on one disk. The reading equipment costs about the same as a compact disk player.

A stage more advanced than this, the 'worm' (write once, read many times) is a blank disk on which the user can write non-erasable information. These systems are now widely available for use with personal computers and other larger systems. Because they cannot be erased, such systems are most useful for archiving data or creating large libraries of information which are to be used regularly.

Stewart Vane Tempest, marketing director of supplier, Magstore, believes that for many applications, for example for recording financial transactions, there is a definite advantage in not being able to erase because 'nobody can cook the books."

He points out, however, that optical disk devices should not be compared with high speed erasable magnetic storage devices - 'they fill a gap between disk and tape'.

Although market researchers Frost & Sullivan estimate that the market for write-once devices will be worth $2.5bn in the US alone by 1990, the most important limitation to the take-up of optical storage lies in the fact that the cost-effective, long-lasting, erasable disk still eludes researchers. On the face of it, this limitation immediately prevents the optical disk from being offered as a replacement for the floppy or fixed hard disk.

The race is now on to offer a reliable and cost effective product. 3M has already begun shipping test devices to some customers, while Philips and several Japanese companies are expected to make major annnouncements next year.

Dr Meino Noordenbos, who heads the Optical Filing Group at Philips in Eindhoven, says that reliable erasable devices will come. He points out, however, that magnetic storage products have been available for several decades, and that it took Philips eight years after developing optical storage before it was first able to offer a 'worm' system.

It will take time for the technology to become established and for applications to be developed. Until then, says Dr Noodenbos,

The technological and marketing issues which are associated with optical storage are labrythine. In order to overcome some of the problems, such as the initial costs to the user and the slow access times for the retrieval of data, suppliers are pursuing several different technologies, most of which are incompatible with each other.

This suggests that, despite the work on standardisation among CD-Rom suppliers, the market for optical storage devices will be fragmented for many years with different types of disks available for different types of drives. This is already being

Networking technology provides the 'glue' that allows computers tc interact, thus offering big advantages to users

The demand intensifies

THE LONG-AWAITED era of computer networks has arrived in Europe. The market for networking technology in Europe is expected to grow in value at an annualrate of 25 per cent between now and 1992, according to a report just published by the market researchers, International Data Corporation (IDC).

The total value of annual shipments of network systems by 1992 is expected to be nearly $1,600m compared with $280m in 1986.

Mr Ken Fairclough of IDC says that the bulk of this growth is expected to take place in countries where networking technology has yet to make an impact. The UK, for example, is a relatively mature market for networks and the annual growth rate over the next five years is forecast to be about 17 per cent.

But in West Germany and Spain, where networks are relatively new phenomena, growth is forecast to be 44 per cent and 65 per cent, respectively. Mr Fairclough also expects the price of networking technology to fall - "The growth rate by units shipped in Europe is about 30 per cent while the growth by value of sales is only 25 per cent. This means that the price will fall," he says.

Networking technology is the glue which allows computers to talk to each other and a crucial component of, among other things, the "office of the future." Networking technology includes the hardware, in the form of a special circuit board to physically connect a computer to a cabling system and the cabling system itself. It also includes the software to control communications.

There are two distinct types of networking technology: terminal systems and local-area network (LAN) systems. Terminal systems are the traditional networks, like those used by the large banks and financial institutions. They consist of a number of terminals serviced by a large computer system.

In the last few years, however, the demand for networking technology has been greatly stimulated by the spread of personal computing. Personal computer users who have outgrown their systems are searching for ways of expanding them and networking promises a solution.

At the same time, larger companies are looking for ways to connect their personal computers into the corporate computer system with networking technology. Personal computer networks are based on LAN technology and this is what most people mean by networking now.

There are many advantages that come from linking computers together with networking technology. Data can be easily transferred from one computer to another without human intervention; expensive peripherals like laser printers can be shared and several people can work together on a common database. And special-purpose processors can be added to networks to perform tasks liked database access and communications processing.

Despite the advantages, networking has been a hard nut to crack. Even before low-cost personal computers stimulated the current demand for networking technology, computer manufacturers had worked for many years to find effective methods of connecting computers.

Until the beginning of the 1980s, their efforts were directed at finding ways of connecting their own products together. But the demand for so-called 'open systems' re-directed efforts to find a general solution to the problems of networking.

One of the main principles in open systems is that computers can be connected to each other easily. Although it is relatively simple to connect two or more computers together, it is much harder to find a way to allow them to talk to each other satisfactorily.

Computer manufacturers have built their businesses on their own unique or 'proprietary' computer designs. This means that they all do things differently. The difference may only be slight, but it makes computers from different suppliers difficult to link.

The industry's way round this problem has been to evolve a set of standards, which are acceptable to all manufacturers. One of the most important of these is the International Standards Organisation's model for open-system interconnnection (OSI). This model, which was proposed in 1980, specifies the 'language' that computers are expected to speak to each other.

Although it has yet to receive universal acceptance, many manufacturer's have committed themselves to the ISO model and it has helped to speed up the development of networking technology.

But putting international standards in place is a slow process and, in the past, the lack of coherent standards like OSI and thetendency for manufacturers to go their own way, has led to the development of many different approaches to networking technology.

The two technologies which have emerged as the leaders in LAN technology arethe Ethernet system, originally developed by Xerox with help for Intel and DEC, and the token-passing ring technology developed by IBM. Most LAN systems conform to one of these technologies.

The most popular LAN products for linking IBM personal computers are those marketed by the US companies, Novell and 3Com. Their products are relatively low-cost when compared to IBM's LAN product.

The cost of personal computer networks is calculated by the cost per workstation connection. According to IDC this cost is typically about £500 but can range from as low as £200 up to £1,000. But prices are already dropping and the UK company Sagesoft last month launched a low-cost network package which brings the workstation connection cost down to £149.

The hardware technology used in LANs is gradually becoming less important, however. Noel Leaver, a network specialist with the UK software company BOS Software, says that most LAN technology is up to the demands placed on it by PCs.

"The main limiting factor is not the speed of the networking technology. It is the speed of the PC and the connection which governs the overall speed and theresponse time of the network," says Mr Leaver.

He adds that the pressing problem in networking is to make the control software transparent to the PC-user.

"What we are trying to create is a 'black box' so that users neither know nor carewhether they are using a network or not," he says.

This ideal, which PC-users certainly want and which manufacturers are striving for, has still not been achieved. A recent book, published by Online Publications and called 'Local Networks in Practice', examines the experiences of network users in the US and West Germany. The authors conclude: "In general, the use of local area networks is still far from being in the condition promised by the prospectuses issued by manufacturers."

'Local Networks in Practice' is available, price £36, from Online Publications, Pinner Green House, Ash Hill Drive, Pinner Middelsex.

'The LAN Marketplace in Western Europe, 1986-1992' is available, price £1,800, from IDC, 2 Bath Road, London, W4 1LN.Phi-

Philip Manchester

Local area networks

● Value of shipments in the LAN marketplace in $m.

	1987	1988	1989	1990	1991	1992
West Germany	69.5	110.5	150.6	187.3	224.5	258.2
France	58.1	79.7	104.7	130.7	154.3	174.8
United Kingdom	114.6	132.0	148.8	165.7	178.1	185.3
Italy	32.7	51.4	75.4	98.7	119.9	134.1
Netherlands	23.5	31.3	38.9	46.8	54.2	60.3
Belgium	10.5	15.5	20.2	24.5	27.7	30.1
Sweden	24.0	28.5	32.1	34.7	35.7	36.1
Denmark	14.2	16.5	19.0	20.9	22.1	22.3
Norway	12.3	14.9	17.6	20.0	21.6	22.4
Finland	12.0	14.6	16.8	18.5	19.5	19.8
Switzerland	16.1	19.4	22.3	24.6	26.0	28.2
Austria	5.4	7.7	10.3	12.9	14.9	16.1
Spain	11.4	19.9	32.1	47.4	62.3	71.5
Total	403.3	541.8	690.0	832.8	960.9	1058.2

Source: IDC

Concern over stable power supplies

Ways to safeguard the systen

THE TRAUMAS experienced in the City of London last month when hurricane winds caused the worst power failures in 40 years has added to the growing concern among computer managers to instal uninterruptible power supply (UPS) equipment.

While some dealing rooms experienced as many as five power cuts within ten minutes, the companies which came through best were those with a combination of UPS systems which help to keep data intact in the computer's memory, and emergency diesel generators to cover more prolonged cuts.

The hurricane havoc on Friday, October 17, was exceptional, since full-scale electrical blackouts, lasting 20 milliseconds or longer, are fortunately not common in the UK main supply. But according to independent power equipment suppliers, the UK main supply *can* fluctuate between 230 volts and 250 volts, with momentary surges of up 1,000 volts.

In addition, various phenomena such as "brownouts" (i.e. no power for up to 20 milliseconds) are common in developing countries - and probably more common in industrialised nations than most computer-users suspect.

Such problems can cause disk corruption and even physical damage to a hard disk or disk drive. Now, with the steadily increasing number of computer-users at all levels of businesss, the question of stable power input is becoming a key issue for even the smallest business using stand-alone computers and word-processors.

While short power fluctuations are not detectable in most items of powered office equipment, they can nevertheless cause serious problems to the delicate semiconductor chips and computer circuitry which process data at unimaginable speeds. A power failure of only ten-thousandths of a second can mean the loss or corruption of significant amounts of information.

But the mains power which drives office computers is "anything but stable," according to Mr Colin Lewin, managing director of Power Equipment of North London, makers of UPS systems.

While fluctuations occur in all national power supplies (and in suppliers from back-up generators), power surges or power drain can be caused by external inlfluences such a lightning, heavy electric plant start-ups - and with old or unshielded electric motors.

Computer networking compounds the problem, says Mr Lewin. When computers terminals are linked (by telephone or landline to a central processor) and then used to add information to a central database, the effects of corrupted data are even more widely spread throughout the system.

Thus, if corrupt information is unknowingly used to update the database, this will, in turn, be used by other computers-users as a basis for their transactions.

"This situation can be particularly damaging to a business if the files being updated are payroll records, stock control returns, sales figures, production schedules or shipping manifests," he adds.

The loss lies not so much in the time spent re-keying new data, but in the cost of inadvertently working with incorrect information.

Although there are a number of UPS suppliers - such as the French-made systems of Merlin Gerin; as well as G and R Electronics; Chloride Power Electronics; Erskine Systems; Cetronic Power Products; Emerson Electric; and Claude Lyons - half the computer installations in the London area still have no form of power back-up or protection, according to Mr David Sewell, sales manager of the power supplies division of Power Equipment.

Some dealing houses still have no emergency generators, but since last month's blackouts there has been a rush of inquiries, he says. "If last month's storm had occurred during London dealing hours, the effects would have been far morecatastrophic."

Power supply instability can be overcome by installing a *line-conditioning* unit between the mains socket and the computer. These devices smooth out such electrical variables as tranients, spikes and surges and also dampen interference from nearby electrical sources.

Blackouts and brownouts can be prevented from damaging data and equipment only by having an instantly available source of back-up power. One method is to install a UPS unit which, as well as acting as a line conditioner, can supply emergency power for up to 90 minutes.

This at least gives operators the chance to complete work in hand and then, if necessary, to shut down the computer to avoid physical damage.

Michael Wiltshire

West German chemical companies put computers to good advantage

Time-saving boon for research

WHITE-COATED chemists *stand in front of the 10-metre* work benches, carefully examining the hundreds of glass test tubes containing odd-smelling, colourful mixtures.

Row after row of similar work areas fill the immense laboratory, a scene repeated on every floor of Bayer Chemical's seven-story research centre at Leverkusen. In a small office in a corner of one of the laboratoriess, Lab Chief Ulrich Niewoehner sits in front of his computer terminal.

"With this we can type in a formula, or even draw a chemical molecule, and ask 'Did someone make this?' And if so, 'How did he make it?'," explains Mr Niewoehner.

A layman might think computers and chemicals do not mix, but Bayer's research chemists cannot now conceive of getting along without their "electronic catalyst."

Computer terminals are used to tap the "Chemical Abstracts Services" data bank in the US, which contains more than 6.5m different patented chemical compounds, says Mr Niewoehner.

Another useful data bank used by Bayer chemists is "Orac" (Organic Reactions Accessed by Computer), developed by the University of Leeds in 1984. With 30,000 chemical reactions in the data bank, research chemists can save a lot of time by first checking the work already done by others, says Mr. Niewoehner.

The Orac data bank is organised to find a chemical compound either by its formula or else by matching a researcher's *drawing of a chemical molecule* on the computer screen. Anything similar soon flashes on the screen, showing who made it - and when - and what chemicals were used.

Bayer, one of West Germany's big three chemical companies, along with basf and Hoechst, reported Dm40.7bn worth of sales last year. Producing everything from drugs to pesticides to man-made fibres, the company spent Dm 2.1 bn for research and development this year (equal to 5% of worldwide sales).

Some of the company's 12,000 researchers first used computers for toxicology studies back in 1974, said Guenther Kinast, co-ordinator of research and development.

"It's hard to say if we're more efficient by using the computer. But if we didn't have it, we could probably close-up shop here," he says. "You find computers in every lab - they are used for process controls, checking a mixture's temperature and, in fact, just about everything."

The computer centre at Bayer headquarters, one of 600 buildings stretched along the Rhine at that point, employs 700 computer experts, says Mr Kinast. *While the computer experts* write software ("the brains telling the computer what to do"), chemical researchers use their personal computers "as a tool to get the job done," he says. There is an Apple Macintosh on his desk - a computer he prefers for its easy-to-use graphics. A decade ago it was "always IBM for management, Hewlett-Packard *for engineers and DEC comput*ers for the chemists," he says. But now a "revolution of users" is leading the way for for user-friendly machines such as Apple, he adds.

Back in the laboratory, Mr Niewoehner proudly types in the codes to show off "Sybyl", a software program which can *display chemical compounds* tested by all Bayer's researchers.

Typing in the chemical formula for a compound, the chemist pointed out how "active" compounds were displayed in white, with "inactive" mixtures in red.

The graphic display shows researchers which compounds "are promising and which molecule sections are doing nothing. Therefore we no longer waste our time with inactive compounds," he explains.

With one chemist now able to test an estimated 200 compounds annually, and 10,000 such tests statistically necessary to produce one marketable product, it would take one man 50 years to produce a new drug, he notes.

Pointing to the computer, he says that "this changes the direction of the work" and emphasises the red and white chemical molecules shown on the display. "You don't have to cook up so many inactive compounds. This allows you to ask the right questions about a molecule."

If a computer can do that, no wonder chemical researchers cannot live without them.

Dennis Phillips
Bonn.

Computer bureaux

Companies take on specialised roles

UNTIL QUITE recently, computers were so expensive that few companies could afford to buy them. It is only since the *microprocessor brought the price* down at the beginning of the 1980s that computer power has been available to anyone who wants it.

Before the age of the microprocessor and the low-cost personal computer many companies had to rent computer power from a service company. These computer bureaux, specialising in "selling" computer time, in the early days provided raw mainframe computer power to their customers. They also provided consultancy and operations support for customers' systems, and even software.

The role of the bureaux has changed significantly since the beginning of the 1980s, however. "It was then that the classic idea *of the bureau selling time* began to change," says Peter Bedells, sales and marketing director for Sherwood Computer Services.

"We have specialised in selling a bureau-based solution into a specific market and have adapted that to fit in with the customer's application."

Sherwood specialises in supplying computer services to Lloyd's underwriters. But the service goes beyond the provision of pure computer power to include the application software and support services.

"Underwriters do not have room where they are working for large computers. So they use a small terminal connected remotely to our computers," Mr Bedells explains.

The software developed for the bureau service has been written so that it can be sold as a software package. This means that the software can be run on a customer's own computer under their own control.

Sherwood, in common with many other companies in the *service industry*, will also take on full management responsibility for a customer's system - facilities management - and this is an increasing trend in the services business.

Doug Eyelons, director-general of the Computer Services Association, says that facilities management is one of three key areas for service bureaux to move into against the background of a decline in their traditional business. "Pure bureau business continues to decline as it has for some years We expected bureaux to move into three possible areas: value-added networks (VAN); on line databases and facilities management.

"In fact, facilities management has shown itself to be the most popular," Mr Eyelons says.

The trend is reflected in figures released by the UK government's Central Computers and Telecommunications Agency (CCTA) on expenditure by government on external computer services.

In the year from April 1985 the UK government spent nothing at all on facilities management. In the following year from April 1986, the CCTA estimates that £20m was spent in this area. And in the latest year, from April 1987, expenditure is expected to be £40m.

Ron White, managing director of Computer Management Group, sees other opportunities for traditional bureaux stemming from changes in government policy. "Much of our new business, especially in the financial services area, has come as a result of increased privatisation and changes in government legislation, Mr White says.

"In some ways it is has gone full circle. There was a definite *decline in* bureau business at the end of the 1970s when cheap minicomputers started to come to market. But in the last couple of years we have seen a change back to bureaux."

Mr White sees this return to bureau-based processing as partly a result of companies growing disillusioned with the problems of managing their own computing. "They thought that if they bought their own machines that would be the end of their problems

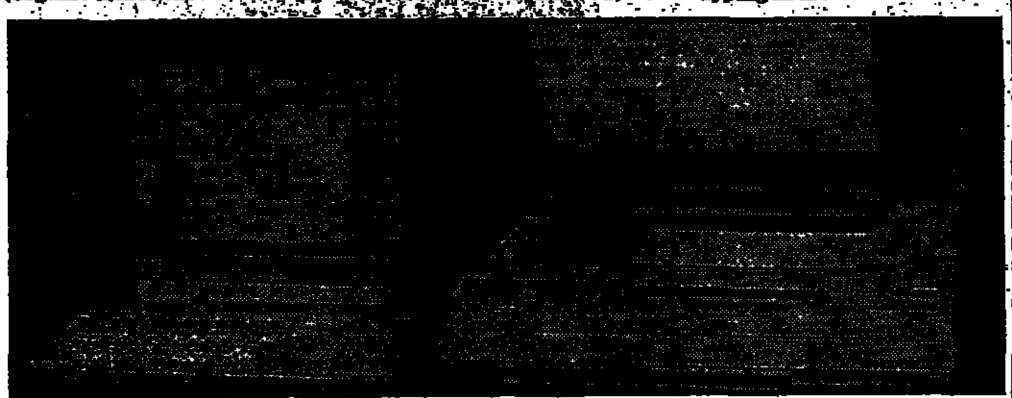
"But in reality, it is not just the hardware which costs money. The software, maintenance, support and a whole host of other things are involved and they have not become cheaper at all."

This is especially true of payroll processing. Much of payroll processing is dictated by constantly-changing government legislation and is out of the hands of individual companies. Therefore, payroll, traditionally has been an ideal application for a bureau.

The trend, even in large companies, is towards placing the payroll application in the hands of an external payroll processing bureau. "Customers cannot afford to take resources from their core systems to maintain a payroll system," Mr White says.

The future of bureaux, therefore, is tied closely to the provision of total services such as payroll processing or special processing demands of specific business. But the days of selling computer power on its own would appear to be over.

Philip Manchester



Wang's WIIS system tracks down digitally-stored records more easily.

New integrated image system

A FULLY-INTEGRATED capture, archival, indexing and retrieval system for all non-computerised information is being launched in Europe by Wang Laboratories.

Letters, forms, signed documents and so on can now be stored digitally on Wang integrated image systems (WIIS) - "so that the traditional filing cabinet may now start to be replaced by a system that is not only much cheaper, but also allows those records to be tracked down far faster," claims the company which is among leading suppliers of computer-based integrated information processing systems, including word, data, image and voice processing.

Images are "captured" using digital scanners or microfilm cameras. They are stored on optical and magnetic disks or microfilm.

The filing, search and retrieval is one of the most more powerful features of the new Wang WIIS system. It is achieved through the relational database management system of "Pace" (Professional application Creation environment). These WIIS images can also be exchanged between users and systems using the Wang "Office" mail services.

The makers believe that one of the main potentials of WIIS lies in its integration into the core applications of business-users. The system is compatible with the entire range of Wang VS computers - "thus an image system can start relatively inexpensively, but grow with the needs of the business until it may be storing thousands of millions of images," says the company.

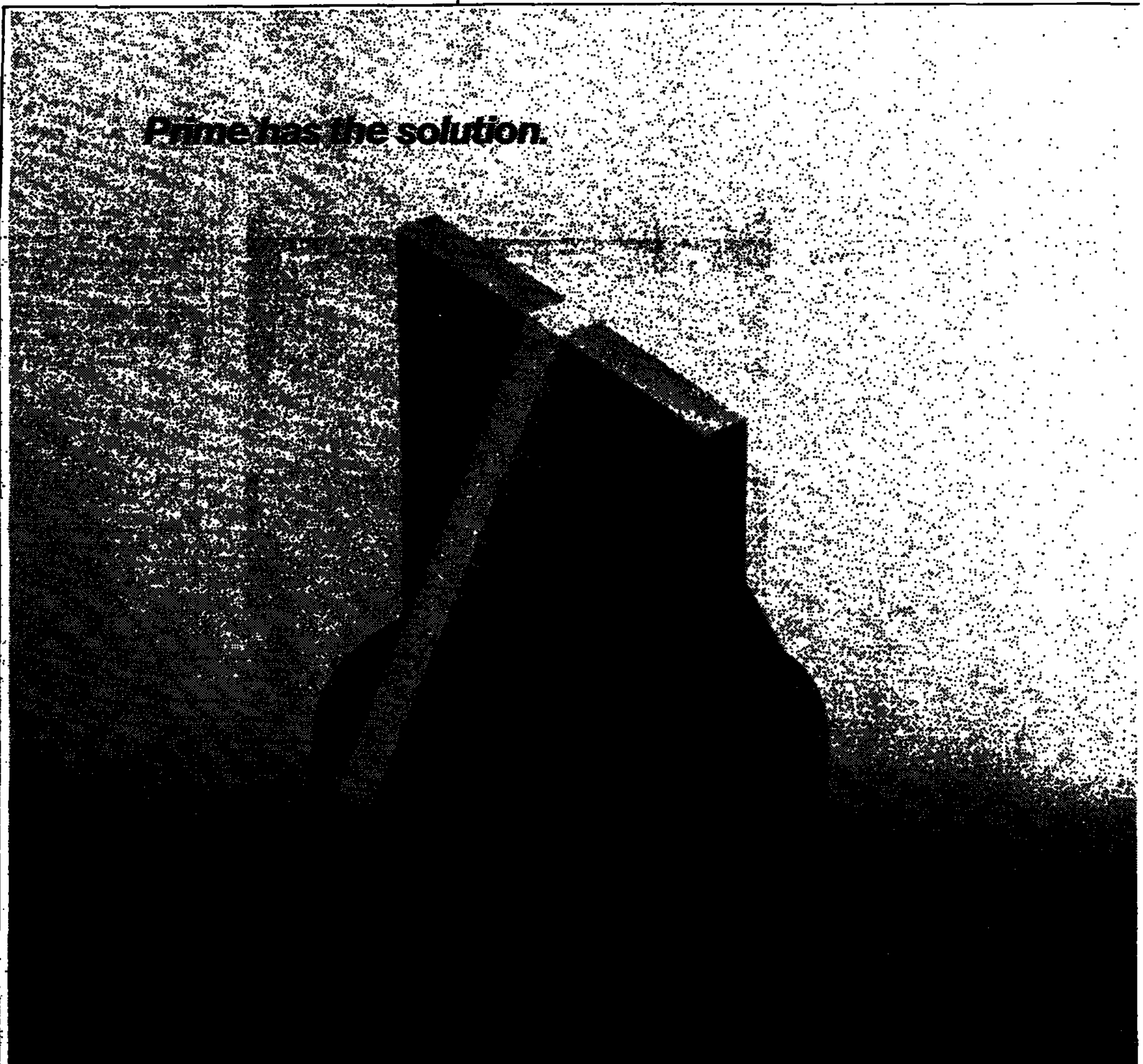
Wang Laboratories (turnover $2.82bn for the year ended June, June 1987) has its headquarters in Lowell, Massachusetts. Wang (UK) has a turnover of more than £185m and employs 1,400 people in manufacturing, sales, engineering and user-support.

Bank's system for personnel

LLOYDS Bank has become one of the first major clearing banks to introduce a core computer system running on networked IBM PCs for personnel management.

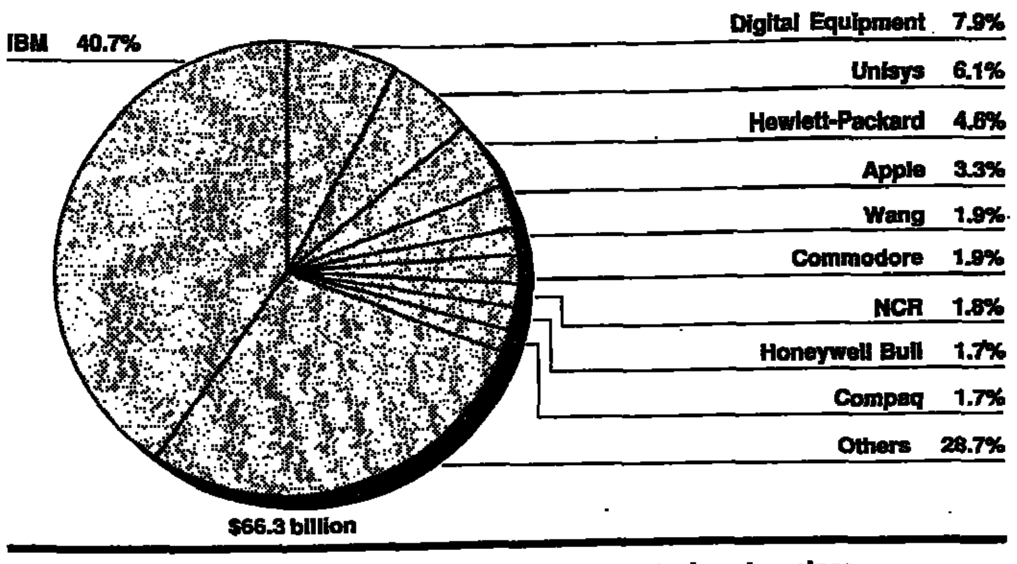
Around 43,000 employees in 16 areas of Lloyds' operations in the UK are covered by the system. Software developed by Percom has been installed to provide systems for personnel management, absence control and recruitment. Percom has also supplied a range of facilities which handle transaction logging, corporate consolidation and data transfer for payroll to and from the central mainframe at Lloyds' head office in London.

Lloyds spent two years evaluating the software ahead of installation. The system allows the bank to simplify its rountines and reduce the clerical burden. Other advantages are in the areas of manpower-planning and improved record-keeping.

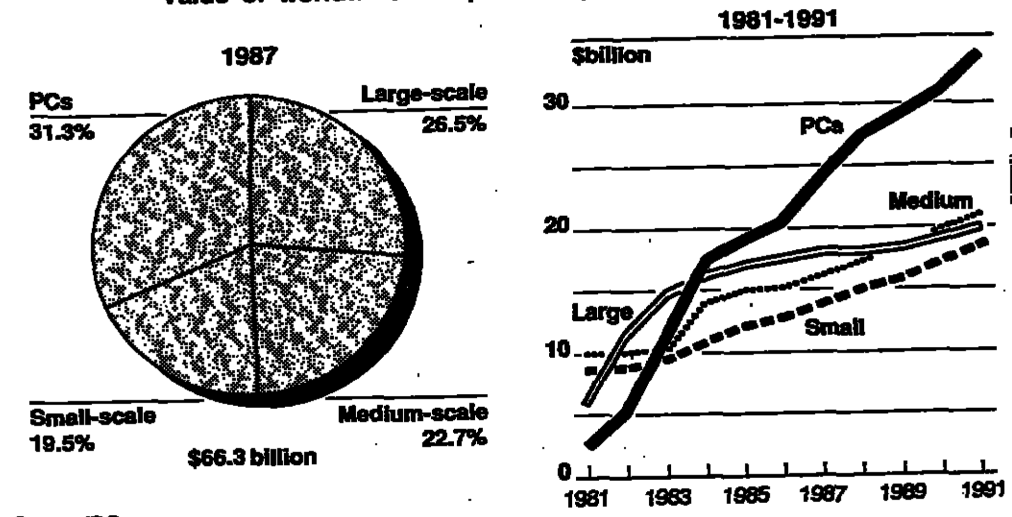


Worldwide computer sales

Vendor shares of worldwide computer shipment value by US-based manufacturers,1986



Value of worldwide computer shipments by size class



Source:IDC

The inevitable consequence of internationalisation

A shake-out in UK leasing

OVER THE past 18 months the computer leasing business has been through a period of dramatic but widely predicted change. Of the five independently quoted UK companies which were competing for a share of a huge domestic and world market, only one, Atlantic Computers, is still trading under its own name. The other four, United Leasing, Comcap, Premier Dataserv and IBL, have all been absorbed into larger groups.

The last and the most notable of these casualties was IBL, which despite phenomenal growth in the years leading up to flotation, lasted just over two years as a public company. By the time it was bought by the Swiss group Inspectorate last month, IBL was one of the world's largest computer specialist leasing companies with a turnover of £342m. Yet, ravaged as much by the fast pace of change in the international leasing environment as by its managerial problems, it changed hands for less than its asset value, hounded by City analysts and without the confidence of its bankers.

Leasing specialists view the takeovers and mergers as an inevitable consequence of the increasing internationalisation of the computer financing business and the associated series of structural changes affecting the industry. All are agreed that, despite the headlines, there is no recession in computer leasing. When the dust settles it is clear that there will be far fewer players in the market for leased computer equipment - worth an estimated £1.4bn in the UK alone in 1986 - but those survivors will be able to offer their customers a greater variety of financial packages along with a wider variety of computer and information technology products.

Until recently there were, with a few exceptions, only two types of customer for a leased computer product. There were those who wanted an IBM mainframe and associated peripherals, and there were the rest. The large, reliable second-user market for IBM mainframe equipment, and the relatively predictable future value of that equipment, has for many years enabled computer leasing companies to construct special flexible deals for IBM users which take into account the second hand "residual value" of the system to be installed.

Knowing this value to be relatively stable, specialist computer leasing companies have been able to win business by deducting this amount from the total leasing fee. Growth has been ensured by the fact that once a customer signs a financing agreement, he usually return whenever an equipment upgrade was required.

Users of other makes of equipment have not been so lucky. With the second-hand market uncertain, they have had to make do with whatever bank or general lease finance they could arrange or secure through their supplier. Only with the increased competition and the need to diversify into new markets have leasing companies begun to offer 'operating leases' on non-IBM equipment.

According to Mr Jeremy Crame, Atlantic Computer Systems Division managing director, leasing companies have been the victims of their own success - "too many small companies became medium-sized companies." This has not only led to increased competition in domestic markets, but made it essential for leasing companies to operate internationally. "One of the consequences of moving into international markets is that the core business in the UK becomes more profitable," says Mr Crame.

With larger players able to bring in finance and equipment from all over the world, all the major players have sought to grow either through merger or acquisition. For some, there was no choice but to be acquired. Mr Phil Coussens, who was the founder and chairman of IBL, believes that the consolidation process is not yet complete. "One way or another, all the existing leasing companies in Europe will be amalgamated into one or two," he says. He argues that one reason for this is IBM's determination to meet the needs of its customers without independent involvement.

IBM now operates a large worldwide leasing subsidiary which is competing successfully against its many independent rivals. While the Swiss group Inspectorate has bought both of its main rivals, IBL and United Leasing, Atlantic Computers has grown and now dominates the UK market. In the space of four years its turnover has grown from £80m to £320m and its profits from £1.7m to £21.6m. No longer content with its image as a leasing company, it now describes itself as an international financial and technology services group.

In common with the efforts of other computer leasing companies, Atlantic has diversifed, partly to look for new areas of growth and partly to reduce exposure to IBM. It now not only offers leases on DEC and ICL computers and medical equipment, but has established subsidiaries operating outside leasing altogether.

Despite the persistent predictions of its imminent demise, leasing continues to thrive and spread in both its forms - straightforward financial leasing and the more creative operating leasing. A recently published report from the market research company Frost & Sullivan estimates that one third of all new computer and telecommunications equipment installed is leased at present and that by 1991 this will rise to 45 per cent.

One reason for the expansion will be the spread of operational leasing outside the traditional IBM market. However the flexibility that leasing gives is also expected to boost the market for the conventional leasing of smaller computers.

Finance companies such as Combined Lease Finance have recognised the potential of this market and are offering all-in finance, insurance and maintenance agreements to attract business. Other companies such as Livingston Hire and Inspectorate's subsidiary Meridian, having overcome copyright and licensing problems, are offering software leases - a development which reflects the fact that software now accounts for the greater proportion of a computer user's outlay.

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The upsurge in the economy in general and the demand created by Big Bang in the City, in particular, means that there is a substantial shortage of skilled computer staff in London. Above: a dealing room in the City.

Skill shortages

An imbalance of supply and demand

THE RECRUITMENT gain from a shortage of skills - the training and recruitment industries - say that the imbalance of supply and demand has reached a point where it is beneficial to no-one. Computer recruitment agencies, which for years have fed off an imbalance in demand, claim that the situation is nearing the point where the overall lack of skilled staff is affecting the expansion of their business.

The skills shortage is concentrated in the South-East, with experience in project management, IBM systems, computer networking and financial systems in particularly high demand. But a recent report from the National Computing Centre, "The IT Skills Shortage; A Prescription for Action", discovered that the shortage has spread throughout Britain with only Northern Ireland reporting a modest surplus in appropriately skilled staff.

A survey by the London Chamber of Commerce in 1986 found that the lack of skills was cited as the main impediment to investment by 24 per cent of organisations, with the next most commonly cited reason - no suitable application - being cited by only 7 per cent of respondents.

There are at least three reasons why the problem has suddenly become acute. Firstly, the sudden upsurge in demand created by "Big Bang" in particular and the upsurge in the economy in general.

Secondly, the changing requirements, which have rendered some skills obsolete and put others at a premium. And thirdly, the fact that some two-thirds of computer-using companies do no training in information technology at all.

It would be wrong to conclude from this that there is a dearth of training companies or good in-house training programmes - the problem is that too few companies are willing to invest in training at all. Mr Philip Virgo, the author of the NCC report, found that while large corporations do run training programmes, small companies rely on buying in expertise from outside.

The computer services industry, which needs skilled staff to survive, trains heavily. The top nine systems houses, for example, recruit and train 3,000 graduates a year. Their problem lies in finding ways to stop their experienced and qualified staff from leaving to join financial institutions in the City.

Like the computer staff recruitment industry, the training industry itself is enjoying fast growth, but not in relation to the rate of growth of the information technology industry itself. Government figures estimate that £46.8m was spent on formal training in 1986. In 1987 this is expected to reach £65m.

Mr Roger Graham, the chairman and managing director of the systems house and training company BIS, and a former chairman of Cosit, the computer services Industry Training Council, estimates that the training industry is growing at about 20 per cent a year, the same rate as the computer industry as a whole.

But he points out that in addition to the fear of losing trained staff, there are other impediments to training. By far the greater part of the cost of training, for example, is not the course fee or materials but the cost of losing the individual from productive activity while he or she is being trained.

Despite the very high quality of some courses, the training industry on the whole is not well-equipped to meet the current demands. Mr Virgo said that the training industry was fragmented, with many of the certificates in computer skills of limited value.

"Most courses are drawn up by the education sector. They are always asking for input, but they rarely get it. The result is that a lot of courses are not suitable," he says.

Initiatives are now underway to rationalise the training industry, with courses sponsored by the Manpower Services Commission being given special attention.

There are also hopes that "distance learning" techniques, such as the use of computer-controlled videos, educational software packages and easy to use touch-screens, can be used to ease the burden on the employer. Other ideas include the extended use of aptitude tests within organisations so that they can recruit in-house.

However, as the main problem lies with companies which will not train at all, the debate about skills has concentrated on how to encourage training and how to keep staff once they have the necessary skills.

Mr Virgo has called on the Government to exempt trainees from National Insurance contributions - a proposal which has the backing of many in the computer industry but has yet to win much support in government circles. The proposal would encourage the training of raw recruits and, co-incidentally, stimulate the growth of the training industry.

Some organisations have taken matters into their own hands. The US-owned systems house, EDS, which puts its new recruits through a rigorous training programme, requires its trainees to sign a "promissory note" saying they will pay back a proportion of the cost of the training if they leave within two years. The contract may seem draconian by modern, or British standards, but it has been upheld in the courts and has proved effective in the US.

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